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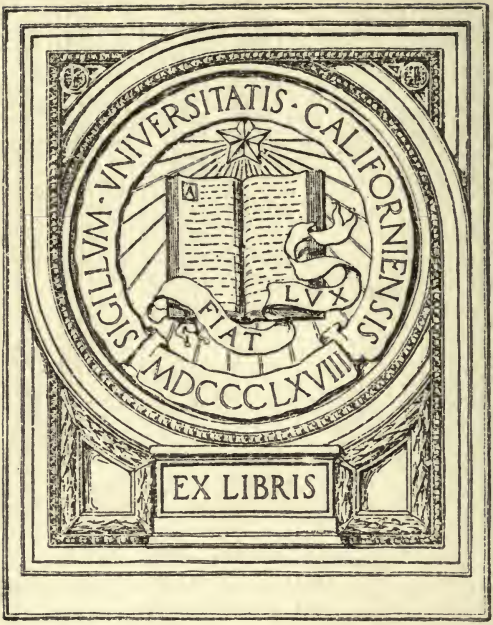
What Every Investor Ought to Know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What Every Investor Ought to Know

BY

ROBERT L. SMITLEY

THE MAGAZINE *of* WALL STREET
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PREFACE

THE chapters constituting this book were published in various issues of THE MAGAZINE OF WALL STREET by the author under his pen names of Arthur N. Slocum and James Kennedy.

Almost all books written for the investor are both technical in language and dry reading. These articles are set forth in the simplest form and fictitious names and situations are used to attempt to make the chapters more interesting to the reader. The author hopes that the casual investor will apply such instances to his own case and thus make the book profitable throughout.

It is a strict rule of THE MAGAZINE OF WALL STREET—wherein these chapters appeared—to publish only articles which are easily understood by every reader and whose context has an actual concrete value to the reader. This summary of

purpose has been attempted in each chapter. It may be that the reader will not at first appreciate the continuity of financial education set forth in each chapter, but these chapters are an incentive for further study and each one contains a text which may be enlarged upon at the will of the student.

The elementary features of What Every Investor Ought to Know may be found in this book. Do not try to read it through at one time. Read a chapter at a time and then take up the supplementary reading applying to this particular chapter. The reader will find that it will be very profitable.

ROBERT L. SMITLEY

WHAT EVERY INVESTOR OUGHT TO KNOW

CHAPTER I

Financial Knowledge Versus Chance

Investor and Speculator—What the Classes Mean—What to Avoid

KNOWLEDGE spells Success. This aphorism is becoming commonplace, but its truth cannot be controverted. Especially is this true when it refers to dealings in the security markets. The differentiation between the terms speculator, underwriter, investor, reorganizer, and promotor is usually pronounced in the minds of all those who are acquainted with the terms, but when the actual definition is called for, the dividing line is blurred and indistinct. There is but one psychological dividing line. The above phases of the security business stand on one side and the Simon pure chance-taker stands on the other side.

The Chance-Taker

This class of operator discards the fundamental basis of the speculator or investor, which is knowledge. His tools are Luck and Tips. The books of a fair sized, or large brokerage firm could easily be divided into the two classes, if one took the time to investigate each customer. The writer, at one time a partner of a brokerage firm, was interested to a sufficient extent to make such a test. There were about three hundred active accounts of individuals in the ledger when the list was taken. Twenty-five per cent of these were, without doubt, gamblers and the rest speculators and casual investors. At the end of three years, ninety per cent of the gamblers had disappeared. Their names were no more to be found in the ledger. Not more than ten per cent of the other class was lost to the business. It was a clear case of Science versus Luck, with Science the winner in nearly every instance.

Psychology of the Gambler

The chance-taker has no plan of campaign. He is a creature of the moment much as a butterfly in the animal world. The world is scientifically ruled and there are inviolate mathe-

matical rules to fit the gambler in any game. The chances are always against him and when this element of mathematics is supplemented by superstition, the chances for his failure are enhanced. The word Superstition is used in much the same manner as the word Luck is used. Both eliminate all consideration of the knowledge element.

This superstition feature is the most ridiculous of all the elements which tend to formulate the gambling character. It would be as impossible to list all the superstitions as it would be to reach the nth power. One man trades in U. S. Steel com. because in the past it has been his luckiest stock; a second always sells stocks when Trinity Church chimes are playing a hymn; a third believes that prices fall on Tuesdays more than any other day of the week; a fourth always sits in a certain chair. The list could be continued until it would become tiresome, if it were not tragic. Human beings are all imbued with a certain degree of superstition, but the man who can trade his superstitious leanings in business for a modicum of real knowledge is just that much ahead of his former kind.

"Tips" are the second worst tools of the chance-taker. They are even more dangerous

for the user than his superstitious qualities. The rational man would consider the reason for a "tip." In the realm of finance there is no sentiment. Each man is primarily for himself. It is the law of nature and the "tipster" is the man who offers advice without a basic reason for giving it. He may have a private and a very personal reason, and it is true that "tips" often are productive of gains, but only when the recipient acts at once and takes his profit, if any, when it appears, without the slightest delay. Daniel Drew, the most famous of the "bears" of former days, dropped a small piece of paper on the sidewalk as he left his carriage to enter his office. A by-stander picked it up and read, "Buy 5,000 Erie at the market." Without doubt, this order was meant for Drew's broker and the loss was an accident. Within fifteen minutes every gambler had the word to Buy Erie. Of course Drew created an excellent market for his sales that particular morning.

Advice versus Tips

It is the one purpose of legitimate brokerage firms, investment houses, news agencies and market advisers to retain their followers. To do

this they must advise in such a manner that they are right more often than they are wrong. The gambler refuses to accept the experience and knowledge of good advisers, whose sole business is to study the security markets from every viewpoint. He prefers the excitement of following his superstitions and tips. The result is inevitable failure.

Good advice and purchased assistance for the purpose of dealing in securities are even more necessary than in the commercial world. The business of trading in stocks is more difficult than any other form of business, and it is unfortunate that so many will not appreciate this fact until they first burn their fingers in the fire. From the psychological point of view, the requirements, in addition to sufficient capital, are Knowledge, Study, Good Advice, smooth-running machinery and above all a firm, brave temperament, so different from that of a gambler.

The Speculator

The limitations of this article are too confined to list the resources of the successful speculator. Primarily, however, he must have an intimate

knowledge of what the trend of the security market is as shown both by the prices—the "tape" to use a technical word—and exterior commercial and financial influences. These in turn may be influenced by political and sociological conditions. There are plenty of excellent books on this subject and there is at least one service in existence which will assist the speculator. Our study is the man who has taken advantage of such opportunities.

Cornelius Vanderbilt, Leonard W. Jerome, Anthony W. Morse, Jay Gould, and on down to men of today, such as Bernard Baruch, are types of successful speculators who have bettered the world through their success. The "constructive" speculator is the very best asset which any country can have. His acquired knowledge teaches him that the efforts which tend toward the improvement of mankind are the only dependable speculative efforts. The knowledge acquired by Mr. Baruch through speculation in industrial securities made him one of the most valuable men for this country on the Board of National Defense. The speculative knowledge acquired by the late E. H. Harriman in railroad securities caused the Union and Southern Pacific systems

to open up a country which will possibly supply the nations of the earth with food. If Mr. Harriman had been but a chance taker, he would not have achieved what he did. If he had been but a careful investor and had not studied and planned, the result would have been somewhat the same as the gambler's so far as his fame is concerned.

Required Temperament

To plan out a campaign just as the General of an Army does, is the necessity of the Speculator. It is said that Germany had every move of war mapped out in advance when the rush was made through Belgium. An unexpected check was given to these plans at the very start, and they had to be at once revised to meet the new conditions. It was absolutely necessary to have the original plans, even though they were later altered. The analogy applies to the speculator. He maps out his course after study, advice, retrospect, and outlook. Once determined that he is right, he moves forward with his campaign. There must be no cowardice, but sometimes there must be quick decisions and retreats. The

old campaign type of speculator does not consider one reverse or one false move the end of his efforts. He fights on until either victory or defeat is effected. If his knowledge is better than his opponent's, victory is assured, but he always provides a safe line of retreat and makes certain that his commissary department—his capital or margin—cannot be entirely destroyed.

The successful speculator may spend all his time with his broker, may be a broker, or he may devote the surplus from gains derived from another business and speculation may be only an avocation. In any event, he will follow his own judgment supplemented by the best advice he can buy; his temper will not sway his purpose; his nerves must be trained to stand sudden shocks; and he will not be influenced by superstition or worthless "tips."

The Investor

In following out the psychological trend the Investor is classed a grade or two higher than the Speculator. Why this is so it is hard to determine, but the man who does business in stocks and bonds is much better satisfied to be

termed an Investor than a Speculator. If the economic status is carefully examined, it will be found that the Speculator, as he is defined in our minds, does much more for mankind than the Investor, although each has his place.

The Speculator's efforts in the broader sense affect the whole community. His work helps to build up new industries, creates new positions for workmen, starts new cities and stimulates all commercial endeavor. Without the speculator in United States Steel stocks, we would not have had the remarkable resources which we had to assist us in the World War. We would not have had the City of Gary, Ind. Had Mark Twain not lost all his money trying to support a type-setting machine, we might not have had the linotype and its kindred forms of machinery.

Almost every man and woman has become Investor. But the Investor requires nearly as much knowledge to succeed in his purpose as the Speculator. He does not realize this fact so thoroughly as the Speculator, but he is fast coming to realize it. The old type of Investor was the head of a family living in Rhode Island who, after making $100,000, "invested" it all in New York, New Haven and Hartford Railroad stock,

so that his family would never want. He felt so certain of his investment that he willed it to his heirs in such a manner that it could not be sold. He considered a broker's office as equivalent to a gambling hell and he smugly died with the knowledge that he had done his part in the world. His widow is probably running a boarding house and his children clerking or stenographing in a broker's office. He was one of the type so aptly termed, in THE MAGAZINE OF WALL STREET, a "Sleeping Investor."

Honore Balzac, in his Comedie Humaine series, considers the genus "Old Maid" as an economic loss to the world. If he had lived today, he would probably have classified "The Sleeping Investor" the same way. The successful Investor must be as active and up-to-date as the Speculator if he is to retain his income and capital. He will have his investments examined periodically by experts just as he will go to his dentist every few months or be physically examined by his family doctor. He knows that it is his duty to take out Life, Health and Fire Insurance, but he also knows that he cannot keep up the premiums on his Life, Health and Home unless he insures his Income and Capital.

The Investor is organizing. We already have two or more organizations comprising railroad share holders and it will not be long until the industrial share holders will come together under some capable leader to ask for uniform reports or some other excellent feature of co-operation. The Investor is gradually awakening and the meaning of his name is becoming confused with the definition of the Speculator.

The Investor has found out that it is necessary for him to keep in touch with events and happenings if he wishes to protect and increase his funds. The habitual bond buyers have also reached the same conclusion. The man who once purchased Rock Island Co. collateral 4% bonds due 2002 at 60 or 70 and put them in his safe deposit box, forgetting he had them, learned some short time ago for the first time that the total equity to which he was entitled after the downfall amounted to a problematical $100 or so for each bond costing between $600 and $700. When he gets his next surplus, and invests, the investments will be analyzed.

CHAPTER II

Protecting Your Dependents

Your Will—Executor—Trust Funds—Ante-Mortem Preparation

HAVE you made adequate preparation to safeguard your family or dependents in the event of your death?

This is a subject which is not by any means a pleasant one to discuss, but it is one of the most important matters for every man to know if he desires to protect those who are dependent upon him. There is a certain amount of hesitancy in attending to these items, because no one desires to think of the possibilities, but it is the unselfish, careful man who does think of and attend to such matters and no one enjoying the finer qualities of mind and sensibility desires to be classed with the selfish and inconsiderate.

There are three distinct steps to be taken in making such arrangements: the first is arranging the estate, no matter how small, so that it may be easily handled for the best interests of the

heirs; the second is placing of the increments of the estate in such a manner that the beneficiaries, even during the life of the owner, are able to derive full benefits with the least risk; and the third and most important step is the matter of the will and the executor.

The Investments

Taking into consideration the fact that the owner of an estate which will ultimately be used for the purpose of giving income to dependents desires it to fulfill the original purpose, there are three important items for careful consideration.

The first item is to have the various increments invested so as to bring a good return with more than reasonable safety. With the exception of owning a home, property is not the most desirable element to consider. However, if the home exists during the life of the husband and father, it should be one which can be kept up from the income derived from the remainder of the estate. It should certainly not be encumbered with mortgages or any kind of a lien. It would be far better to dispose of all equity even in home property and arrange for rental, if there is the

chance of dependents falling heir to encumbered property (real estate).

Having arranged to make the homestead free from all possible encumbrances, the next step is to make the investment. These investments should not be allowed to yield much over five and one-quarter per cent. If the flat yield does go over this figure it is very possible that there may be one or two items which will be liable for total loss and thus decrease the income. A reasonable arrangement is this (basing the total value of the estate at $20,000):

Home and property unencumbered	$ 4,000
Actual cash in Trust Co. 2% interest	1,000
Guaranteed mortgages, 5%	5,000
Real first mortgage, R. R. bonds, 4½%	5,000
Real first mort. Industrial bonds, 5%	2,500
A good list of preferred stocks, 5½%	2,500
Total	$20,000

The cash in the trust company should be a liquid reserve fund to meet any unexpected contingency. It should never be touched unless in a case of absolute necessity. The trust company is the best depository for such a fund, because it gives the depositor a better rate of interest, and

is just as safe as any other form of banking. It would be best to have the deposit in one of the larger trust companies of the nearest large city. The local National bank could be used for depositing the income and for a checking account.

The guaranteed mortgage should be one of a duration of not less than ten years, and backed by the best title and guarantee company available. It is well to investigate the actual property on which the guaranteed mortgage is a participation whenever possible, but if the guarantor is well known as reliable, it is reasonably safe to accept his word for the basis of the mortgage. This kind of a mortgage permits the owner to be free from all complications of a legal nature.

The real first mortgage railroad bonds are differentiated from so-called first and refunding mortgage bonds. A bond like Iowa Central 1st and refunding 4 per cents. would never do. The name is a misnomer, for the first mortgage consists of a very small proportion of mileage and the first lien on a bridge. The help of a good financial service and also of a trust company should be called in to judge this item of the estate as well as all other items mentioned.

The first mortgage industrial bonds are classi-

fied similar to the Central Leather Co. 1st 5 per cent. bonds, or the Bethlehem Steel Co. 1st 5 per cent. bonds. There are very many excellent examples of this form of investment, but the investor must be very sure not to be deceived as to the bonds being a first lien and having the backing of the entire resources of the corporation.

The preferred stocks should be chosen from the tried field. Not only should the past history of the company be investigated in a thorough manner, but the record of dividends over a period of years and a complete study of the outlook for the future should be made. Good investments in the railroad field such as Atchison Preferred and Union Pacific Preferred or even in the Industrial field such as U. S. Steel Preferred or National Lead Preferred are examples of this particular form of investment.

An alternative of a very safe nature would be to substitute one of the Government (Liberty Loans) for a first mortgage bond of the railroad variety. The investments should not be made in more than $1,000 in each kind of railroad bonds or more than $500 in each class of industrial bonds and preferred stocks (on the $20,000 basis). Attention should be given also to a

thorough geographical distribution so as not to have the liens covering one locality.

How to Make It Easy for the Beneficiary

If the father or husband is going to fight for his country and the expectation of his return to his dependents is doubtful or even if the estate is to be arranged for easy liquidation after death, there are important steps to be taken.

Should the owner be a resident of New York State he must take into consideration the law which places a tax on all bonds. The bonds should be made tax exempt by paying the costs at once. This covers a period of five years. Should the bonds not be made tax exempt the State authorities will step in when inventory of the estate is taken and charge a large interest item in addition to the regular tax involved.

Each share of stock should be endorsed in blank and properly witnessed and dated. In the event of the owner's non-return the stock will not have to be transferred for sale or to go through endless red tape to have the dividends go to the proper parties.

The bonds should be registered as to principal

and interest whenever possible, and the owner should furthermore make out separate bond powers in blank, having them properly dated and witnessed in the same manner as the stock. The guaranteed mortgage could easily be made out to two parties so that in the event of the death of the head of the family the proper beneficiary would have little difficulty in acquiring the full title.

During the life of the family head, the item of cash in bank should be to the credit of a joint account so that no embarrassment will come to the heirs when the need of the "rainy day" surplus comes. Without question the homestead should be placed in the name of the one to whom it is destined ultimately to go. There are no other means to get away from legal red tape unless this idea is fully carried out.

An Alternative

If for any reason the head of the family about to depart for war or in arranging his ante-mortem affairs does not desire to go so far in these safeguards, there is the alternative of using the services of the trust company. Any trust com-

pany will help conserve the total property during the lifetime of the owner by creating a trust for one's own benefit. This trust can also be extended for the benefit of the family after death. The trust company takes entire charge of all the property at a very nominal sum and will do all the work of collecting and disbursing the income both during the absence of the head of the family or in the event of his death. There is no limit to the kind of trusts which may be created, so that there is no excuse for the head of the family not taking advantage of this form of protection.

In addition to this, it is possible for the trust company to safeguard all the increments of investment during the life of the principal, without creating a trust. Such a form of procedure permits the father or husband to invest with a little higher rate of interest than that allowed under pure trusts. The company will keep these investments in a private vault, collect and disperse all items of income, and, furthermore, look after the individual securities so that they will not lose from improper watching.

It is difficult to overestimate the value of the trust company's services under such conditions.

Keep Records

A complete list of all securities owned by the estate should be left enclosed with the will and another copy given to the principal beneficiaries. In this way there exists a complete check on the estate and a safeguard against any crooked dealing. The deed for the homestead and all receipts denoting that taxes have been paid to date should be a part of the contents of the safe deposit vault or go to the trust company handling the business. The deed must be entered on the county records and all papers relating to the insurance of the title to the property or fire insurance on the home should be attached. A personal property inventory of effects belonging to the household showing the location and original cost should be a part of the records, for this is a very necessary item of proof for collection in case of fire.

An Executor

A trust company is a thousand times safer than an individual for the purpose of conserving the estate, either on the basis of trusts while living or executor duties after death. The trust

company cannot charge more than the legal rate for such duties and in addition to this feature there is no possibility of undue risks such as arise in a one man trust proposition.

The head of a family often has a close friend in whom he has implicit confidence. He thoroughly believes that this friend will do more for his dependents than a trust company. He does not take into consideration the personal element which exists wherever the individual is concerned. This element is that, because a man is human, he may be swayed by ulterior influences even if under bond to protect the estate. This friend may become seriously incapacitated mentally or physically. He may die soon after or before the family head, or his personal affairs may become so pressing that his time is not given to the interests of the estate or trust which he controls. It is doing neither the heirs nor dependents a favor, nor is it doing the trustee or executor a favor to put him in this position.

The employment of a trust company in the fiduciary capacity is the only rational method of procedure. The trust company performs its acts strictly in an impersonal method, under stringent laws of control and through committee decisions.

Two heads are better than one and two or more experienced heads are infinitely better than one possibly very inexperienced head.

Eliminate Legal Items

In addition to the care in selecting a competent trustee or executor, the warrior about to leave for probable death must try to eliminate as many legal complications as possible. There is nothing which will eat up an estate so quickly as to get it tangled up with law expenses. There is certainly a place for the legal element in our worldly affairs, but the more the law and lawyers are kept away from an estate or trusteeship, the greater is the amount conserved for the dependents. The trust companies all maintain legal departments ,which service comes under the regular expense of administration. The extras are done away with and the costly red tape is prevented to the distinct advantage of the beneficiaries.

The Will and the Executor

Without exception every man should make a will. If he dies without a will the law steps in

with all its costly features and regardless of the actual needs of the heirs, settles according to law and not according to reason how the estate should be divided. There are set rules for the division of an estate when the owner dies without a will. In addition to this it is the usual custom for the courts to appoint the administrator who is nearest of kin without much regard for his or her ability to administer. In this way much money, both from income and principal, is lost. By all means do not neglect to make a will if it is your desire to give those dependent upon you the full benefit of what you wish them to have.

Make the will just as short as possible. The more words used in a will offer greater opportunities for ambiguity and therefore legal complications. If the testator can compress the will into one or two simple paragraphs there will be a greater chance for the will to stand.

One excellent method is to place the investments in the names of those to whom the will directs they shall go, before the death of the head of the family. Such beneficiaries may sign the certificates in blank or give unfilled-in powers-of-attorney for the bonds. The invest-

ments are therefore negotiable during the life of the owner, though not in his name. If you own 5 shares of Atchison preferred stock and desire it to go to your wife, Jane Smith, after you die, so designating this amount in your will, have the transfer made, at the time of purchase, to Jane Smith. Jane Smith may then endorse the certificate in blank and it is usable for your own purposes during your life and you may sell or change your purpose at any time, for the stock has been made negotiable.

Either have your own lawyer draw your will or have the trust company do it for you. Do not attempt a holographic or home made will. The law has a language all its own and the layman is absolutely unacquainted with it. A number of years ago one of the justices of the Orphans' Court of Pennsylvania drew a full and complicated will. He had been passing on the validity of wills for years and yet his own will was easily broken. Very few doctors can cure their own diseases and very few lawyers can do their own legal work. It is therefore best to follow the plan of brevity and clearness if it is your desire to properly safeguard your dependents.

What an Executor Must Know

Above all else do not make a relative, or any other single person, whether friend or lawyer, the executor of your will. Here are a few "qualifications for an executor" suggested by H. A. Blodgett in his pamphlet of that name: Real estate values, the true value of various classes of securities, the trend of the money market, the laws and ordinances affecting property, including the Federal Income Tax Law, the Inheritance Tax Law, the Exempting of Bonds and Trust Funds. He must also have a good knowledge of reports constructed in legal form, bookkeeping, and legal accounting. He must be a man of keen knowledge and experience and he must not have any partiality for one heir over another. In fact, the foregoing are but a few requirements for a mediocre executor. Why not be on the safe side and employ a competent trust company in the first place?

When a trust company is employed with the expectation of handling all the financial details of the man who is leaving for the "front" or intends to be away for an indefinite period, the

Trust Fund is the instrument utilized to effect this financial relationship.

This Trust Fund will take charge of all the property of the soldier or traveler. Without his assistance it will collect his income from every available source, pay his taxes, insurance, fixed expenses and in addition will invest his surplus from the accrued income or either remit the proceeds of the income to him or to some one whom he may designate.

A complete and understandable statement of all such transactions is rendered periodically to the owner and, in case of his death, the Trust Fund will be transferred to the beneficiaries either designated in the Trust Agreement or in his will.

"The Trust Company acts as representative for living or dead in practically every legal relation in which an individual can act. It must not only keep intact the estate of which it has charge, but must safeguard the interest of every beneficiary."*

The writer has endeavored to point out the safest and best methods for the soldier who is

*Ralph W. Davis.

leaving for the front or the careful man who hopes to best conserve his estate for his dependents. The trust company is a national institution. Its business is the safekeeping of securities, the management of property and the collection of incomes. These items are as much in its province as the care of teeth is the real business of the dentist. One does not go to the lawyer with a bad molar, therefore why permit an inexperienced man to guard all you own which you purpose to be left for the comfort of your wife or children?

The Summary of Precaution

When going away to fight for your country or preparing your estate for your dependents in case of your death:

Be careful to choose good and diversified investments.

Have them carefully analyzed by experts before purchase.

Keep sufficient ready money within easy reach.

Do not invest in real estate except for a home.

Do not attempt to get too large an income.

Permit a good trust company to handle the

estate for you if you are called away from home to service.

Establish a trust fund during your lifetime.

Keep your securities negotiable and endorsed.

Insure land titles and register all deeds.

File all tax bills with your deeds.

Tax exempt all bonds.

Make a short will, uncomplicated in form.

Make the trust company your executor.

Have periodical analyses of your holdings.

Make provisions for "switching" an investment if it appears to be turning out badly.

Keep as far away as possible from law courts.

CHAPTER III

What Is a Bond?

How It Is Underwritten and Marketed—Why is a Bond Necessary?—What Happens to It?

THE Great War has demonstrated the efficiency of the aeroplane. Men with ability and foresight—also capital—realized the profitable future for this aircraft business. It was for this reason that the Phantom Aero Co. was formed (Invented by the author for the purpose of illustration).

During the first few years of existence, this new company experimented, changed and reorganized. Incorporated under the laws of New Jersey, there existed a capital account of $25,000,000, half preferred stock and half common stock. In 1917 the great test came. The United States Government entered boldly into the world struggle, and the great need was for aeroplanes. The Phantom Co. had not made money. Its both classes of stock had sold far

below par. The seven per cent. preferred had never paid a dividend, and the common had been the football for speculative operations. The advent of aeroplane demand had created new possibilities and eager investors had purchased both classes of stock until the preferred was quoted at 60 and the common at 15. The credit of the company had advanced on account of new conditions.

The affairs were conducted by the officers, elected by a board of directors, who, in turn, were elected by the stockholders. The present set of officers happened to be efficient. At a meeting of the board of directors, President Smith spoke.

"Gentlemen, this company must grow. We have the patents and the manufacturing plant; we also have the orders. But, it is costing us too much to do business, as we lack sufficient working capital. We are paying an exorbitant rate of interest for loans and our credit is limited on account of the small deposits we carry. What must be done? What can you propose to give us an opportunity to make large profits for our stockholders?"

The treasurer, a comparatively young man named Brown, immediately suggested,

"Bonds!"

"We need at least $5,000,000 working capital," he said, "and this is costing us over 6 per cent., or about $320,000 each year. Our credit is now excellent among investors, and I believe that we will save money by issuing a 5 per cent. bond."

The directors decided upon this method of financing, and the plan was presented at a meeting of the stockholders. Over 50 per cent. of the stockholders endorsed and voted for this issue, for the saving features were clearly noticeable.

$5,550,000 bonds sold at 90 = $4,995,000.

Interest at 5 per cent. on $5,550,000 = $277,500.

Saving on interest every year $42,500.

Twenty-five year need for borrowing $1,062,500 saved $555,000. Premium loss deducted from the $1,062,500 equaled $507,500. Interest saved, which would be used to apply to redemption.

Of course, a sinking fund was established to raise during the 25 years, the capital to meet

the bonds when due, but this phase would have to be supervised by the lawyers and the trustee.

The Banking Firm

Treasurer Brown took a trip to New York, and arranged a meeting with Mr. Lee, of Lee, Green & Co., prominent and wealthy bankers. At the first conference he said, "Mr Lee, the Phantom Co. desires to issue $5,550,000 25-year 5 per cent. bonds. You will, of course, make a thorough examination of the company and give us your verdict. There is no need for me to go into details because your experts will give you the facts. When may I expect a decision?"

"Within the next thirty days."

About four weeks later Treasurer Brown received the following letter:

Dear Sir:

The reports of our investigators in the matter of the Phantom Aero Co.—re proposed bond issue—have been filed. We will take over the entire issue of $5,550,000—25 year 5 per cent. bonds at a flat price of 90. If you accept, kindly arrange to have your lawyers confer with Messrs. Dundee & Co., our attorneys, and at that time the adoption of the trustee, the terms of the mortgage, the indenture and other incidentals

will be arranged. If the conference agrees, we will be prepared to act at once.

Very Truly,

Lee, Green & Co.

After the lawyers had agreed on the form of the bond, the provisions regarding interest, sinking funds, and the equity to protect the principal,

Bond and Coupons

the Standard Trust Co. was called into act as the trustee.

For a commission the trust company agreed to act for all those who would buy the bonds. The Phantom Aero Co. executed a mortgage in favor of the Standard Trust Co., which stated that all the property owned by the Phantom Co., estimated at a sale price of $15,000,000, would be placed in the hands of the Standard Trust Co. to protect the lenders. In addition the Phantom Co. agreed that if the interest funds, to be paid out semi-annually by the trust company, were not forthcoming at the proper date, the trust company would have the right to confer with the bond holders and sell the equity back of the mortgage. The Standard Trust Co. agreed to pay out the interest when due and the principal when due, to the holders of the coupons or the bonds. These papers were made out by the lawyers on both sides, properly registered in the records of the county where the property was situated, and temporary certificates of indebtedness were issued to the bankers, Lee, Green & Co., until the actual bonds could be printed.

The firm of Lee, Green & Co. paid the Standard Trust Co. $4,995,000, which was de-

posited to the credit of the Phantom Aero Co. for its own use. An arrangement was also made that the Standard Trust Co. should act as depository for the Sinking Fund, an amount set aside each year out of the earnings and interest saved, to pay the principal when the 25 years was up.

It must be noted here that the Phantom Aero Co. has its money. It must pay 5 per cent. on a loan of $5,550,000, for which it only received $4,995,000. The rest of the proceedings is entirely in the hands of Lee, Green & Co. The Phantom Co. might have made arrangements to offer this loan to its stockholders direct, but it was safer to put it in the hands of the bankers, and much cheaper. It is now up to the bankers to make their profit.

The Distribution

Lee, Green & Co., with the consent of the Phantom Aero Co., sent out a notice to all the stockholders of the company that until a certain date such stockholders will be permitted to subscribe to these new bonds at 95. Each stockholder owning 100 shares of either class of stock

may purchase $1,000 of this loan at $950, and a certificate known as "Right to Subscriber" is sent to each stockholder of record on a certain date. Depending on the terms of the indenture and the price of the stock these "Rights" are valuable or they are not valuable. The stockholder may either exercise his option or he may sell it to some one else. In any event, on the date set, the subscriptions are counted, and we will suppose that only $3,000,000 is taken by the stockholders of the company. This leaves $2,550,000 in Lee, Green & Co.'s hands.

The Syndicate

Before beginning the sales campaign with the stockholders, Lee, Green & Co. called into conference four other banking or investment firms. The data regarding the Phantom Aero Co. was submitted and the other firms agreed that this was an opportunity for profit. They formed an agreement to take over at 95 all the unsold bonds and to make Lee, Green & Co. the manager of the syndicate. They also agreed to "withdraw from sale" all bonds allotted to them until the disbanding of the syndicate. This gave Lee,

Green & Co. a profit of 5 points on all the issue. The only possible loss in this connection could happen in case their proportion of the syndicate allotment could not be sold.

The members of the syndicate agreed to sell these bonds at 98 to the general public, and at no other price. Each member of the syndicate had a list of regular customers who were eager to get the bonds at 98, because they were vouched for by such well known firms. In addition to this, each firm had a corps of trained bond salesmen. The head of the sales department called these men in conference, distributed to them all the facts and figures, and then lectured to them on the qualifications of this particular bond issue. Every phase of the mortgage, the business of the company and the peculiar worth of the loan for certain classes of investors was thoroughly dicussed. Questions were asked, and the head salesman constituted himself as a prospective purchaser, and the salesmen attempted to sell him the bonds. After all possible questions had been settled, these men were sent out to do what they could.

After the prospects had been seen and the field

of regular customers thoroughly covered, the salesmen were called in and the syndicate manager reported to the firms that only $1,000,000 of the bonds remained unsold.

The Public Offering

The advertising and publicity campaign was now ready for the final distribution. Announcements were made in all the leading daily, weekly and fortnightly financial publications that on September 1st next, the books of the various firms composing the syndicate would close for subscription to the Phantom Aero Co. 5 per cent. first mortgage bonds, due 1942 at $100. Literature about the company was sent to investors all over the country, and the advertising followed up by attractive articles about the Phantom Co. On September 1st the books of the syndicate closed. The syndicate manager, Lee, Green & Co., made an accounting to the other firms of the syndicate, and it was found that only $250,000 of the issue remained unsold. This amount was divided pro rata according to the various interests in the syndicate, and each one had a right to sell the bonds as desired.

Who Profited?

The reader will easily follow the various items of profit which grew out of this bond issue. In the first place, the Phantom Aero Co. got its money at once in one block without any trouble. In the second place, the firm of Lee, Green & Co. got a profit of 5 points, or $50, on each $1,000 bond sold to the stockholders. In the third place, Lee, Green & Co. got a profit from the sale of the remainder to the syndicate at 95. In the fourth instance, Lee, Green & Co. and each other member of the syndicate made a profit selling to their chosen customers at 98. And lastly, the entire syndicate made a small profit in addition by selling to the general public at 100.

The Expenses

The expenses were quite large, and probably amounted to at least 3 points on the total issue of bonds.

In the first place, there was the cost of investigating the Phantom Aero Co. These investigators were high salaried men, and the incidental cost of travel and overhead office expenses must

be included. Then followed the fees for the lawyers and the fees for local and state legal necessities. Possibly the bonds were made tax exempt at the time of issue. Thirdly, the printing for the temporary certificates, circulars and agreements; next the advertising cost and salesmen's commissions, and last but not least, the postage and so-called incidentals.

What Happens to the Bonds?

It is the custom for well established firms to stand back of their bond ventures. Lee, Green & Co. are no exceptions to this rule, and they are ready to buy back at a slightly reduced concession bonds which investors desire to sell. Other firms enter into the field of buying and selling these bonds so that a "market" is established. It may be that the firm of Lee, Green & Co. desire to establish a more desirable "market," so that application is made to list these bonds on the New York Stock Exchange. The advantage for the owner by such listing is that the bonds become better collateral for loans. There is no other advantage except possibly a little closer "market" for a purchase or sale. Some-

times the investor is better off if his bonds are not listed on the New York Stock Exchange. These Phantom bonds, not being listed, are not the football of speculation, but are more or less protected by Lee, Green & Co., whose reputation is at stake. They may have passed through hundreds of hands, but no matter who has had them, the money is being loaned to the Phantom Aero Co.

The interest has been paid regularly, and in 1942 the holder notes that the principal is due. Each year of the twenty-five, the Phantom Aero Co. has been putting aside enough out of earnings to eventually pay off these bonds. The proportionate amount involved for each year is mathematically computed, which taking accrued interest into consideration, involves a problem quite out of the customary mathematical calculations. At the date of expiration the Phantom Co. pays the Standard Trust Company the amount of the mortgage. The mortgage is released and the Standard Trust Co. pays off the various holders of the bonds according to the terms of the original indenture on the bonds.

CHAPTER IV

Gauging Personality

What the Investor Should Know About the Officers—Technical and Business Skill

PERSONALITY enters into every phase of business as well as art or pleasure. The Motion Picture Company with Charley Chaplin or Douglas Fairbanks as a star has a much better prospect for profits than a company whose actors are unknown. But even with these stars to get the business, the management may lose money by injudicious salary payments and wasteful stock jobbing propositions. So, in every instance the research work for the investor comes to the same end.

Who Is Managing the Company?

In the previous chapter, the bond issue of the Phantom Aero Co. was discussed. The ultimate reason that the bonds of the company were

accepted by the investment firm and sold by them was, not only because the actual business as a business was vouched for by the investigators employed for the purpose, but because the investment firm believed in the capabilities and business acumen of the management. President E. P. Ripley of the Atchison Railroad once had the choice of positions with the Rock Island Co. or the Atchison, Topeka and Santa Fe. He chose the latter and the Rock Island Co. fell into the hands of managers who were more interested in the stock market part of the business than the railroad. The Atchison is firmly established as a good investment, while the Rock Island disintegrated and went through receiver's hands.

The prospective buyer of Phantom Aero Co. 5 per cent. bonds should be perfectly satisfied with the men who are managing the company. The investor has one piece of evidence in favor of investing. The good firm of Lee, Green & Co. would hardly have undertaken the underwriting of the issue unless they were satisfied. This is the first reason why the prospective investor should consider the purchase of Phantom Aero Co. 5 per cent. bonds. But he should not rest with the bare word or on the action of

the Investment Firm without personal investigation. The following analysis of a corporation of this nature was suggested recently by Prof. Charles W. Gerstenberg, president of the American Association of Financial Statisticians:

"1. What is the integrity of the management?

"2. Does the enterprise possess technical skill; are its processes stabilized and improved as far as technical skill can take them?

"3. Does the management possess business skill, is it shrewd, are its distributive functions well organized, is it meeting competition successfully?

"4. Does its management possess financial skill; has it committed itself in the past to financial obligations that would be injurious or prejudicial to new capital; has it mortgaged the future as well as the past in such a way as to interfere unduly with future expansion?

"5. Is the business reasonably free from legal interference?"

Therefore, without going into the intricate duties of the trained statistician, let us see what the average man can learn about the bonds of the Phantom Aero Co. and its management, before making his investment. It is well to follow

the outline of Prof. Gerstenberg in summing up the results.

The Management's Integrity

The prospective investor would of course investigate the reliability of Lee, Green & Co. It would be definitely established in his mind that unless the Phantom Aero Co. was a good, going, well managed concern, its bonds would not be recommended by such a well-known investment firm. On the other hand, there might be possibilities which would determine Lee, Green & Co. to undertake this issue, which would not be in accord with the judgment of the individual investor.

An examination of the personnel of the Phantom Aero Co. discloses the following officers:

President, John Smith. A graduate of Harvard, class of 1890, studied law and later a member of the firm of corporation lawyers, Eckert & Smith. After a successful career became associated with Sword Auto Co. as its secretary and legal adviser. Was instrumental in reorganizing a number of defunct industrial concerns and is a member of many important clubs.

The Baldwin Locomotive Works
Incorporated under the Laws of the State of Pennsylvania
June 7, 1911

Directors

William L. Austin	Rosemont, Pa.
William Burnham	Philadelphia, Pa.
Alba B. Johnson	Rosemont, Pa.
Samuel McRoberts	New York
Charles D. Norton	New York
Samuel M. Vauclain	Rosemont, Pa.
Francis M. Weld	New York
Samuel F. Pryor	New York
William E. Corey	New York
Sydney E. Hutchinson	Philadelphia, Pa.
Guy E. Tripp	New York
Sidney F. Tyler	Philadelphia, Pa.

Officers

William L. Austin	Chairman of the Board
Alba B. Johnson	President
Samuel M. Vauclain	Vice-President
William deKrafft	Secretary & Treasurer
John P. Sykes	Genl. Superintendent

General Counsel, John G. Johnson

The Baldwin Locomotive Works
General Offices of the Company
500 North Broad Street., Philadelphia

Transfer Agents

In Philadelphia: Philadelelphia Trust Company, 415 Chestnut St.

In New York: Bankers Trust Co., Wall and Nassau Sts.

Registrars of Stock

In Philadelphia: The Pennsylvania Co. for Insurance on Lives and granting Annuities, 517 Chestnut Street.

In New York: Guaranty Trust Company of New York, 140 Broadway.

Representatives and Agents

New York, N. Y.	F. W. Weston	120 Broadway
Chicago, Ill.	Charles Riddle	627 Railway Exchange
St. Louis, Mo.	C. H. Peterson	1210 Boatmen's Bank Bldg.
Richmond, Va.	George F. Jones	402 Travelers Bldg.
San Francisco, Cal.	Williams, Dimond & Co.	310 Sansome Street
Portland, Ore.	A. Wm. Hincks	722 Spalding Building
Argentine Republic	Samuel B. Hale Co., Ltd.	Buenos Aires
Brazil	Norton, Megaw & Co., Ltd.	Rio de Janeiro
Chile	Wessel, Duval & Co.	Valparaiso
China	Arnhold, Meyer & Co.	Shanghai
City of Mexico	Carl Holt Smith	3a Calle Tabasco 156
Hawaiian Islands	C. Brewer & Co., Ltd.	Honolulu
Japan	Salz & Frazar, Ltd.	Tokio
London	R. P. C. Sandeman	34 Victoria St., S. W.
New South Wales	R. Towns & Co.	Sydney
Victoria	Newell & Co.	Melbourne
Western Australia	Leslie & Co.	Perth
West Indies	Wallace R. Lee	Havana

Grafton Greenough, General Sales Manager, Philadelphia

Plants

Principal Works at Philadelphia and Eddystone, Pennsylvania

A Typical Page from an Annual Report Showing Board of Directors, Officers, Etc.

Vice-President and General Manager, Abram Spencer. Graduate of the Massachusetts School of Technology 1900, engineer with experience in many mechanical products. Inventor of note and employed by the U. S. Government in an advisory capacity. Has written various articles for technical magazines and is not well known except to those who are in his immediate profession.

Secretary-Treasurer, Thomas Brown. Common and high school education. Entered business as a stenographer, later becoming private secretary and confidential man for the great N. H. Muran, founder of many prominent industrial corporations. Is very well known among financiers and is credited with many friends and business connections in the New York financial district.

Directors. Three well-known bank officials, also three men whose names are fairly well known in the business world and four others who are directors in many other corporations.

A careful reading of the short general biographies of the dictators of the Phantom Aero Co. by the prospective investor would establish in

his mind that "Integrity" is one of the main elements. All those who are in charge have had business experience in varied lines of endeavor. Some of them may have had failures. So much the better for the company. If a leader of an industry has experienced one or two failures and he is known to be honest and is "Integrity Personified," he will be all the more capable. He will know what previous mistakes to avoid.

Processes Stabilized—Technical Skill

It would most certainly seem to the investor that the officers and directors would not have been men to offer a proposition to the general public unless they were certain that they knew how to manufacture aeroplanes and motors. However, even men of this type may be deceived as well as the layman investor. An inquiry regarding what the other members of the same trade think and a look at the product itself from the viewpoint of what effective service has been done would be necessary.

It is easily discovered by the investor that the Phantom Aero Co. has had a very hard time to procure just the right kind of steel with which

to construct motors. It is also a public fact that much money has been spent on experiments and that even now the process of construction may have to be changed. On the other hand, the planes are in active service in this country and the consensus of opinion in the general trade is that they are the best made in this country, although they do not reach the efficiency of the European manufacturers. The deduction for the investor is that the element of chance makes the investment not nearly so good as it otherwise might be. The other viewpoint is, "Someone will succeed and it is more likely the Phantom Aero Co. than any of the others."

The processes, therefore, are not really stabilized, but how about the technical skill?

Out of all the officers and directors, the vice-president and general manager Abram Spencer is the only one having what might be called a modicum of technical skill. At first glance, there does not appear to be a real expert in aero-manufacture. Further investigation, however, would reveal that the consulting engineers, not mentioned in the catalogue of officers, are among the best in the world. Men formerly with the Wright and Curtiss companies and experts from

abroad are on the salary roll. Without such men, the investment would be very risky. With these men, the possibilities for profitable business are vastly increased.

Business Skill—Competition

A resumé of the business histories of the officers and directors easily proves that each of them is qualified in the business world. The president has not only had a theoretical training but a practical training. The secretary-treasurer has had a thorough business education and the directors are men of experience and known ability. There seems to be nothing of a serious adverse nature in the study of this element and it is therefore a mark in favor of the investment.

The competitive feature is a little more interesting and is not so favorable for the investor. In looking over the comparative records of other companies, we find that these other companies have been able to manufacture planes at a much less cost. Why is this so? Careful investigation shows that the purchase of raw material was made by the others at less cost per unit. The competitive companies also have been able to

turn out more machines so that just now there appears to be something wrong. Further and closer analysis of the statement shows that the working capital is very small. It is therefore evident that a bond issue would help to solve the problem.

Does the Management Possess Financial Skill?

Looking back at the list of officers and directors of the Phantom Co., the investor notes that the secretary-treasurer and seven of the directors are either practical or theoretical financiers. This feature is quite in favor of the company and would be a factor conducive to investing in the company. It stands to reason that these men must necessarily have sufficient ability to carry the Phantom Co. through serious financial difficulties.

Committed to Financial Obligations?

Up until the new bond issue, outlined in the preceding chapter, of this series, there has been no definite financial policy pursued by the officers and directors. The company, in the past,

has been run with the capital gained by the selling of shares and whenever additional working capital was needed, it was borrowed from the banks on short time direct notes. The general financial policy had been too cautious rather than too careless. An examination of the quarterly reports to the stockholders also shows that a comprehensive system of accounting exists which has been properly audited. There is nothing in the statement which could be hid from the average investor and so far as can be learned there are no "jokers" to deceive the layman.

The initiative of the directors in advising a bond issue to gain more working capital is laudable for it should put this company on a par with its competitors. In addition, the method of distribution of the bond issue, its sinking fund clause, and the assets back of the mortgage, all are in its favor. So far as this statistical element of investigation is concerned, the investor has everything in his favor. There is no past sin hanging over the financing and if the business continues to prosper, there is no reason on the face of recent financial and managing ideas to prevent further funding schemes which will not

interfere with the present issue. The company has not mortgaged its future.

Free from Legal Interference?

This is a most important subject for the prospective investor to consider. It is most frequently overlooked by investors and, if nothing is noted in the records, the prospective purchaser of bonds or stocks should make sure of this condition through the investment firm bringing out the saleable issues. Any manufacturing company whose product is based on patents needs a thorough examination.

The Phantom Aero Co. did not have original patents but purchased them from former concerns which were originally consolidated into this one company. The other little companies were practically driven out of business on account of necessary expenditures to defend their patents both on the form of plane and the motors. These suits were all settled before the time of consolidation with the Phantom Co. and the investment firm's lawyers reported to the Standard Trust Co., the mortgagee, as well as their own firm, that court records were clear as to the non-

infringement of the other patents in existence. Had the patents of this Phantom Co. simply been applied for, it is doubtful if any money could have been borrowed in the investment market. In every case the investor must investigate this situation.

We have now gone over the item in connection with the management, both from the intimate-personal phase to the general-impersonal phase. The investor has decided that while there is a certain amount of risk, much greater than an established railroad first mortgage bond, yet the men who are managing the business and the quality of the investment firm making its financial offerings is of such excellence that an investment is worth while for the successful business man with a surplus, but not one for the widow or the man who only has a small sum to invest.

CHAPTER V

The Bond Circular

What It Shows the Investor—What Other Information Should Be Sought

YOU, Investor, have received the bond circular of Lee, Green & Co. describing the Phantom Aero Co. new 5 per cent. bonds. After going over it, what conclusion will you reach? Will you invest in these bonds?

In previous articles, it was shown why these bonds were issued and also how they were offered to the public. Information had also been gained about the personnel of the company. There is now before us the circular of the investment firm offering this investment and it is our duty to study it and find out what further information is necessary and what should be confirmed in the circular.

Is the Equity Sufficient?

A glance at the last balance sheet shows us that there are $5,000,000 in securities held by the

Aero Co. These securities are probably listed at cost price and it is very doubtful if they would bring one-fifth of their value if distributed to the bond holders. So far as they are concerned the importance to the mortgage is negligible. There is therefore left, back of the bond issue, $10,000,000 book value in property. The circular tells what the property is and where it is located and this fact is attested to by the accountants, but the investor, to get complete knowledge, should incorporate this question in his letter to the investment firm before placing his money for the purchase.

What Becomes of the Money?

Any one loaning money is vitally interested in what the borrower intends to do with the money. In fact he is entitled to know. The circular particularly states that this money is to be used for the extension of the plant, to retire the short term notes and provide working funds.

It has been demonstrated to the stockholders that the Phantom Aero Co. is losing by heavy interest payments on account of borrowing current funds from the banks. There is no objec-

tion therefore in using the funds for this purpose. The lender knows also that in addition to the equity stated, the supplies purchased and the finished but unsold products will be an additional guarantee back of the mortgage.

There cannot be much extension to the plants with the proceeds of the sale of these bonds, for after the short term borrowing obligations are satisfied, the remainder will hardly be sufficient for further property extension.

Will the Bonds Be Paid When Due?

The circular distinctly states that there will be a sinking fund established so as to pay off the bonds at maturity, when they are due. A number of financial experts of five or ten years back believed that the principle of refunding, paying off the loan through the issuance of a new one, was the better plan. Their idea was that by the time the loan was due the company would be so well established and earnings so good that a new loan could be made at reduced interest. The Phantom Aero Co. is more experimental and in addition there are uncertain financial elements brought about by the world war. It is there-

LEE GREEN & CO.
640 WALL ST.
NEW YORK CITY.

THE
PHANTOM AERO CO.

TELEPHONE, SUNSET 6180
CABLE "GREENLEE"

FIRST MORTGAGE 5% 25-YEAR SINKING FUND GOLD BONDS

DATED SEPT. 1, 1917. INT. SEPT. 1 AND MARCH 1. DUE SEPT. 1, 1942

COUPON—$1,000, $500, $100. REGISTERED (PRIN. AND INT.) $1,000, $500, $100

STANDARD TRUST CO., N. Y., TRUSTEE

Mortgage—These bonds are a direct obligation of the Phantom Aero Co. and are secured by a first mortgage on all the property, patents, materials, and stock of subsidiary companies owned by the Phantom Aero Co. *Property* consists of 52 acres at Akron, Ohio, 30 acres at Atlanta, Georgia. The *Buildings* are 15 in number, including all factories and shops. The *Patents* have been filed and registered, and all litigation over them has been settled. *Materials* include the latest and best quality machinery for manufacture. *Subsidiary Stock* consists of 5,000 shares of Jones & Co. (entire capital), and 3,500 shares Brown & Co. (control). TOTAL BOOK VALUE—$15,000,000. By Doe & Co., accountants.

Issue Authorized—$5,550,000. Outstanding, $5,550,000.

Disposition—Extension of plants, to retire outstanding short term notes, and provide additional working funds.

Sinking Fund—Annual sinking fund beginning Sept. 1, 1918, equal to 4% of outstanding amount. No retirement of bonds until due at par.

Future Financing—No other issue of bonds can be made under this mortgage.

Statement of Company

BALANCE SHEET JUNE 30, 1917

Assets		Liabilities	
Treasury Securities	$2,000,000	Preferred Stock	$12,500,000
Supplies	2,600,000	Common Stock	12,500,000
Finished Planes	1,400,000	Short Term Notes	4,000,000
Cash	1,200,000	Acc'ts. Payable	400,000
Accounts Receivable	300,000	Interest Acc't	120,000
Insurance and Taxes (Reserved)	50,000	Profit and Loss	3,030,000
Securities	5,000,000		
Patents	10,000,000		
Plants	10,000,000		
	$32,550,000		$32,550,000

EARNINGS

	1915	1916	1917
Gross Earnings	$6,000,000	$7,500,000	$11,530,000
Operating Expenses	4,000,000	4,800,000	7,200,000
Net Earnings	$2,000,000	$2,700,000	$4,330,000
Depreciation	2,000,000	2,000,000	2,000,000
Surplus	.....	$700,000	$2,330,000

OFFICERS AND DIRECTORS

President—John Smith. **Vice Pres. and Manager**—Abram Spencer

Sec. and Treas.—Thomas Brown.

DIRECTORS

Andrew Kennedy—Pres. Fifth National Bank, Akron, Ohio.
James Speed—Vice Pres. Merchants Bank, New York City.
Henry James—Pres. Gotham Trust Co,, New York City.
Martin Eckert—Eckert & Co., Akron, Ohio.
James Day—Day & Co., Cleveland, Ohio.
John Wight—Novelty Co., New York City.
Arthur Morgan—Capitalist.
Justice Forman—Forman & Co., bankers.

Production—Since 1915 The Phantom Aero Co. has kept pace with competitors and has steadily increased its output. Recently it has been given large orders by the United States Government for the standard type of approved plane, XZ4.

Management—Organization at a high state of efficiency and experimental stage is now over. The engineers are from the Curtiss and Wright companies and from France and England. Development work constantly improved. The books are audited by Doe & Co., accountants, of New York City.

Price 100 and Interest

fore more advantageous to the investor to have the sinking fund in existence.

The sinking fund puts aside each year 4 per cent. of the issue. This is a little larger than usual, but it means that the Phantom Aero Co. will be able to make quite a little income from the sinking fund interest. It is a better financial arrangement to do this than to allow for the accrued interest on this fund to take the part of the ultimate principal.

Future Mortgages on the Property

The circular clearly states that this is the entire issue and that it is a first mortgage on the property as a whole. There is no provision for any future borrowing which will affect the equity behind this loan. There is nothing said in the circular except a plain statement of facts. If there is to be other borrowing in the future, it will either have to be on a second mortgage basis or on new property to be acquired later. The book value of the real tangible assets is shown to be $15,000,000. If the $5,000,000 of securities held should be left out of consideration as problematical, there yet remains $10,000,000 which can

never be utilized as first mortgage equity until the present loan is paid.

The circular does not clearly show whether the book value of $10,000,000 is an inventory after the $6,000,000 depreciation has been charged off. (Note earnings figures of $2,000,000 depreciation a year for each of three years.) If the ten millions is the value at June 30, 1917, it is most probable that it is carried at a figure arrived at after the depreciation had been charged off and is not the total of original purchases at cost.

Interest Payments

Will the Phantom Aero Co. be able to pay the interest and pay its quota to the sinking fund account?

The answer to this question depends upon the estimate and conclusions reached from a study of the past, the conditions of the present and a guess for the future. Each year has shown an increase in gross earnings, as noted in the circular, and the operating expenses have increased also but in an orderly and fair manner. The circular states that large orders have been re-

ceived from the government. The present, therefore, is provided for.

The future can only be judged by believing that the same ratio of progress will be maintained. The examination of the officers and directorate has convinced the investor that they are to be trusted. It is therefore proper to suppose that the future will be advantageous to the Phantom Aero Co. It is inconceivable that the directors would permit their company to fall behind either in new ideas or in business getting. The possibility, of course, might conceivably be that new patents and form of manufacture might be invented which would make the Phantom Co. a back number. This is possible but hardly probable. From this viewpoint the investment is reasonably safe.

Is the Yield Sufficient?

The yield problem is a matter of choice for the investor. A 5 per cent. yield during war times when good bonds are cheap is not too much for this kind of an investment. In fact, it is hardly enough. When one considers that Central Leather Co. 1st mortgage 5's are selling be-

low par as well as Southern Pacific convertible 5's due 1934, it would seem that these bonds should yield more than 5 per cent. The fact is that the yield is hardly attractive enough for the average investor in this class of bonds. On the other hand, both principal and interest seem safe, and for the purpose of further illustration, we will permit our investor to make his purchase after he has had a letter from Lee, Green & Co., satisfying him by their answers to the questions which he asks them about their circular.

New York City,
Sept. 5, 1917.

Messrs. Lee, Green & Co.,
640 Wall Street,
New York City.

Gentlemen:

I have received your circular relating to the new issue of 5% bonds of the Phantom Aero Co. If the answers to my questions are satisfactory, I will ask that you permit my subscription to $10,000 face value of these bonds.

1. Are these bonds interchangeable as to coupon and registered? The circular did not state this situation.

2. Kindly let me know the cost of the original investment in the various properties mentioned in the circular. If the original cost, including the cost of the buildings, approximated within two million dollars of the ten million in Plant Account, the equity is sufficient for all purposes of investment.

3. I have not even considered the item of patents in the mortgage. They are of course valuable, but the account shows ten million for this item, which appears very large. It makes little difference to me as a lender whether the ten million charge here was offset by a bonus of stock to the original inventors and incorporators, or whether it is offset by selling the stock at an original discount. I merely desire to know this out of interest or curiosity.

4. Kindly be more explicit about the five million dollars in assets expressed as Securities Owned. Is there a possible market for these securities or would the purchased asset of the controlled companies be valuable only to the Phantom Aero Co.? A statement showing the intrinsic value of these securities with further explanation by you would lead to suggestion by me that I increase my original investment.

5. Please send me a list of names of the prominent engineers mentioned in the Management paragraph of the circular. Are these men truly the best to be employed in the aeroplane business and have they long term contracts with the Phantom Co.? Unless you can definitely state desirable facts about this portion of the management, I would not care to risk my money on this loan.

6 Has the stock got a market?. As a lender I am interested to know what was done and is being done in marketing both classes of stock. It will give me a direct line on those interested in the company and also give me a working basis for judging the management as a whole.

In addition, I wish to know if it is your intention to list these bonds on the New York Stock Exchange, where there is an open market, if I find I need to sell them at any time. Or, do you expect to stand back

of these bonds with your associates, providing the market yourself instead of permitting the issue of bonds to get entirely out of your control? Either system of market arrangement is satisfactory, but I would prefer not to have the bonds listed on any exchange.

7. The item of Supplies and Finished Planes looks rather large. Are these orders which have not been filled, or are these planes obsolete?

8. Why was it necessary to borrow so much on this issue when there remained two million in treasury stock yet to sell? I judge that this is not the opportune time to sell stock and that you believe that it is a better investment for the Phantom Co. to hold it, therefore getting much more in the future.

I will appreciate the answers to these questions and any further information which you will give me.

Very truly,
M. R. Investor.

Having decided that the yield was sufficient; that the equity is satisfactory; that the Phantom Aero Co. is likely to do a big business and make much more money than in previous years; that the management is capable; and that the terms of the issue are in accordance with what is desired for investment—M. R. Investor purchases the bonds at par.

CHAPTER VI

Speculative Bonds—Investment Stocks—Definitions—What Is in a Name?

MR. JOHN K. KING was in the structural bridge business in Cook County, Illinois. He had succeeded in making an excellent living and had put aside a sturdy surplus. One day the Big Men held a meeting and decided that it would be advisable to buy up the King plant. John K. was nearing his sixty-ninth year and decided that he had better meet the inevitable, but he was a keen business man and the result of the conference was that he had $500,000 cash and no business.

John K.'s Observations

What to do with the $500,000? During the years of business success, John K. had concentrated all his efforts on his own business. He

knew how to make money in that business and the effort had been strenuous. He thoroughly realized that he could make money, but he had never had any training on the subject of how to keep it. The surplus accruing from the business had been turned over and over. Now that he had the actual cash, he experienced stage fright. He appreciated the fact that the man who has dollars is the target for every man who seeks dollars.

The problem to be met was the safe investment of these funds, which would give him a good income during his remaining years and leave the principal intact for his two sons, who were at this period in school. John K. had been a widower for the last ten years.

It is never too late to learn. Of course he had the superficial knowledge of investment which the average man gets in daily contact with worldly affairs and his mental observations summarizing this knowledge were:

"So far as I can learn there are but five methods of investing. I have the choice of savings bank deposits, bonds, stocks, investments in land, either by purchase or mortgage, or building and loan associations. I have read, sought advice,

and investigated on every side. Each kind of investment has its good points and each kind has its evils.

"I have therefore come to a conclusion which leaves me no better off than when I started. I have learned the terms and meanings of the classifications but in every case I find bad as well as good. In plain words I want the best for investment and having eliminated all classes except bonds and stocks, I cannot find that bonds are better investment than stocks or stocks any better than bonds. It depends on the individual case and there is absolutely nothing in the names. A rose by any other name would smell as sweet.

"My good friend Jackson, the head of a very conservative investment firm, tells me that I should buy bonds. He is of the opinion that it is much safer to be the creditor of a corporation than a partner. But my judgment tells me that this is not always true, for there are plenty of creditors who never get their money back and, on the other hand, there are plenty of partners who never derive a cent from their participation in the business. By sound reasoning the conclusion is easily reached that: *Bonds are not necessarily a good investment because they are called*

bonds, and stocks are not poor investments simply because they are called stocks."

What the Terms Mean

John K. King decided to plot out in as few words as possible the elementary definitions of the principal forms of corporate investments and make his comparisons to find out where he could get the best investment in each class. With pencil, note book and some technical volumes, the result was this:

Bond—An obligation of a government, a municipality, or a corporation, secured by promise, legal ordinance or mortgage, to pay to the lender interest and principal, when due, in return for a loan to said government, municipality or corporation.

a. First Mortgage Bond is one which constitutes a first lien upon the property.

b. Second and Third Mortgage Bonds constitute second or third liens, as the name implies.

c. Consolidated Mortgage Bonds are issued to take up and fund the various prior bonds. They can become first liens when prior mortgages are retired.

d. Second Consolidated Mortgage Bonds are, as the name implies, subsequent liens to the first of their kind.

e. Income Bonds are secured by mortgage on the income of a corporation, after prior claims are paid.

f. Collateral Income Bonds have a protection de-

pending on certain securities deposited for the protection of the principal—but both "e" and "f" are hardly more than promissory notes.

g. Collateral Trust Bonds are issued against collateral or securities deposited with a trustee, who may sell the deposited collateral to redeem the bonds if

An Investment Stock

conditions are not fulfilled. There are various other forms of Collateral Bonds such as Convertible Collateral Trust Bonds. The average investor needs a Philadelphia lawyer for these.

h. Debenture Bonds. These cannot be definitely defined. Sometimes they are no more than an unprotected note of the corporation and again they eventually become first mortgages and have sinking funds. The value depends on the character and standing of the corporation.

i. General Mortgage Bonds constitute a mortgage on the entire system or plant. Part may be first mort-

A Speculative Bond

gage and part second or third. The value must be learned from a complete study of prior mortgages.

j. Sinking Fund Bonds may be of any class of mort-

gages and imply a reserve set aside each year to pay the principal when due.

k. Improvement and Extension. Bonds are issued against betterments, additions, etc. The investor needs to observe caution in this case. While they may be a first lien on extensions, they might also be used to cover up "reckless operating expenses."

l. Car Trust Bonds are secured by mortgage on rolling stock and on non-payment the owners may seize and sell the cars mortgaged.

m. Certificates of Indebtedness. Trust Company receipts, Receivers' certificates and a host of other forms of obligation constitute the less used and less known varieties of bonds.

The *mania* for issuing different kinds of bonds is as widespread as the tulip mania once was in Holland. The exact legal status of different kinds of bonds can only be defined by the lawyers. The laws of the various states affect the same classification in different ways. As the eminent writer, Edward Carroll, Jr., says: "Many bonds partake of the nature of several classes—thus a First Consolidated Sinking Fund, a General Consolidated. A General or an Income Bond, where no second mortgage exists on a property, may be practically on the same footing as a second mortgage on another property.

Various kinds of bonds may be Convertible Bonds—they may be converted into stock at a

certain time, at a certain price and under certain conditions. Some may be good and some bad, depending on the condition of the corporation and the terms.

John K. King read over the above notes, which he had made, with considerable interest. He summarized them as interesting but not conclusive. He was pleased to be able to learn the various terms and definitions, but, as he said to himself, "I do not see how these definitions are going to help me one bit in selecting an investment; for they are only names at the best and any one name may be just as good as another. Let us investigate the stock form of investment."

The Forms of Stock

The second part of the note book, therefore, summarized the story of stocks as possible investments. As in the case of the bond, the definitions were set down as a basis of determination as to the advisability of an investment of this character:

"What is stock? A share of stock represents an interest in the business—not as a bondholder, who is a creditor, but as a partner. The more shares owned

the greater is the owner's proportion in the business. In actual practice the small shareholder delegates his vote by proxy. Stock is never a lien on the property. It is simply the right to share in the profits and losses and all creditors, of any nature, must be paid first.

"Preferred stock primarily means a form of ownership which has a preference over all other classes in the payment of dividends. This sounds well, but there are cases where the stockholder fares better by holding common stock. The preferred shares may be limited as to the amount of dividend and the common stock may, in a successful company, get the largest share. Further than this, the common holders may have the privilege of voting—carrying on the business—and the preferred holders may be deprived of any voice in the matter.

"There are second and third preferred shares in some corporations whose holders get dividends, or are promised them, before the common holders. These, in like manner, may be limited as to dividend, or may have provisions regarding convertibility into other forms of corporate stock. The value of all preferred shares may be impaired by placing burdensome mortgages on the company, and in some cases, the common holders only have the right to vote on such proceedings.

"Common stock holders are the last to participate in any distribution of profits or net earnings. In exceptional cases, where net earnings are very large and a limit is placed on dividends to anterior issues, the common holders get the greatest share.

"Assessable and non-assessable stocks are forms which the very names designate as definitions. Assessable stockholders are often liable to creditors to the amount of the par value of their stock, while non-assessable shares carry all the privileges but no lia-

bilities other than the possible loss of the original cost of the stock.

"Cumulative stock is often worth while. Its features of interest is that when dividends are not paid as promised they accrue as obligations before the common stock can have an interest. Crucible Steel preferred and Corn Products Preferred are examples of securities of this nature which paid up back dividends. Non-cumulative stock improves the chances of subsequent shareholders. If a preferred stock is non-cumulative, the common stockholder has a better chance to participate in profits, if the business is ultimately a success.

"Guaranteed stock is usually the stock of a company which is under the control of another, the latter guarantees the payment of the dividends. The name sounds good but the guarantee is only as good as the soundness of the guarantor."

Conclusion

The astute and careful John K. King, potential investor, studied these terms and definitions. What had he best do with that half million? The very first consideration was to forget the definitions and terms as the basis for investment.

Because a bond is called "First Mortgage" does not stamp it as a good investment. Because a stock is "common" does not stamp it as a poor investment. Back in 1908 Mr. King could have purchased Iowa Central First Mortgage 4's at

81 and refused Sears, Roebuck & Co. common stock at 40. In 1917 Iowa First 4's are selling at 45 and Sears, Roebuck common at 160.

Never invest in a *name*. Invest in a security because it is *good,* no matter what its name may be.

CHAPTER VII

How to Invest a Half Million

An Investment in Each Form of Bond—The Formula to Follow

A HALF Million Dollars to invest! For a retired bridge builder like John K. King, this was as difficult a job as any of the problems he had ever met in business. He had studied the various forms of investments and learned all the well known forms of bond mortgages and was no better off than before except in a general way.

John K. had been a specialist in his own business. He realized that very few bankers and brokers would be able to build a cantilever bridge across the St. Lawrence, and his sound judgment followed out the analogy whereby the conclusion was reached that very few bridge builders had enough training to invest a half million dollars. There are specialists in the bridge business as well as the investment business and John K. shrewdly appreciated the fact that most bank-

ers and investment firms had something of their own that they desired to sell. This individual phase might be all right and it might be all wrong, so there was but one thing left and that was to get

Disinterested Advice

Every investor should know above all things that statistics and opinions are best when mixed by experts. The novice can miss the most important feature of a report. Net earnings may look fine, but really misrepresent. The Science of Finance is just as difficult as the Science of Law, and yet no one goes to court without advice. John K. King collected all his data, collated all his advice, but, before he made the first step toward purchase, he consulted a disinterested Analytical Bureau. It happened that the Special Analytical Service Bureau of THE MAGAZINE OF WALL STREET received the order. After the elimination of many suggestions, the securities of the accompanying table were chosen to meet his individual needs. He well knew that his list might not be satisfactory to the widow or the small investor. Each must solve his own problem according to his individual conditions.

Bond Reports

GUARANTEED BOND—Allegheny & Western first mortgage gold 4 per cent. bond, due Oct. 1, 1998. This railroad was chartered in 1898 as a consolidation of various small companies near Pittsburgh, Pa. It is leased for the full term of corporate existence to the Buffalo, Rochester and Pittsburgh Ry. Co., which agrees to pay the principal and interest on the stock and bonds. It is a first lien on its road, equipment and future acquisitions, holds a very high investment rating and has a market on the New York Stock Exchange. The road itself is an excellent property and the guarantor enjoys a further high rating as a railroad company.

SECOND MORTGAGE BOND—United States Steel Co. sinking fund 5 per cent. bonds, due April, 1963. These bonds are as well known as any investment in the United States. The sinking fund may redeem them at 110 and interest some day and the bonds are a direct obligation of the company and secured by a lien on *all* the property subject only to the 50-year 5 per cent. bonds of 1951, known as the Carnegie bonds. The whole world knows the success of

this most wonderful industrial company and there is a wide margin of safety in earnings for this issue.

DEBENTURE BOND—General Electric Co. 3-year 6 per cent. gold notes, due July 1, 1920. The General Electric Co. is in remarkably strong financial condition, and would be justified in paying out all surplus earnings in dividends. These bonds are a direct obligation of the company but are not secured by mortgage. They are securities of unquestioned standing and possess a high degree of safety. They were brought out by Lee, Higginson & Co., and J. P. Morgan & Co., and were heavily oversubscribed.

LAND MORTGAGE NOTES—Canadian Pacific Railway Co. 6 per cent. Note Certificates, due March 2, 1924, are a direct obligation of the company and secured upon a "Special Investment Fund," composed of deferred payment on lands heretofore sold and securities in which the proceeds of land sales have been invested aggregating $55,000,000, and the outstanding amount is $52,000,000. These notes are backed by the credit of one of the greatest railroads in the world and the redeemable features and terms of the mortgage are very satisfactory to the lender.

FIRST MORTGAGE BOND—Wilson & Co. 6 per cent. bonds are a first lien on the property of one of the largest packing companies in the world. In 1916 the profits available for interest on these bonds were over five times the requirements and for the present year the earnings are running at the rate of about ten times the amount of required interest. The company is in capable managerial hands and the market for the bonds is firm and remains slightly above par.

COLLATERAL TRUST BOND—American Telephone & Telegraph 5 per cents. are a new issue and are entitled to exceedingly favorable rating. These bonds have passed above the offering price but have lately declined with the general market. They may be considered one of the most attractive investment bonds in the market. The security is above adverse criticism and they are backed by the greatest public utility company of its kind in the world and one of the best managed. There would have to be a revolution in the earnings' decline to affect this issue.

GENERAL MORTGAGE BOND—The Reading Company and the Philadelphia and Reading Coal and Iron Co. 4 per cents., due Jan., 1997, are given the very best investment rating.

The mortgage is secured upon practically the entire property, including the valuable stocks of the coal property. There are a number of prior liens which cannot be renewed as mortgages when due so that this issue eventually becomes a first mortgage. Every time dividends are paid on the stock, provision is made to apportion an amount of tax on coal mined as a sinking fund for these bonds. No error can be made in tnis investment.

IMPROVEMENT BOND—New York Central 4 per cent., Series A due 2013. These bonds are secured by a mortgage on certain extensions and improvements made by the New York Central Railroad, and are amply secured by a 50 per cent. surplus valuation of the property itself. Their distinction lies in the fact that the New York Central is back of them and although there have been recent excessive decreases in the earnings which has had an unfavorable effect on the stock, there is nothing to warrant a conjecture that the situation will ever be serious enough to affect these or other bonds of this road. This issue, while not of the first class, is one of the best of this form of mortgage.

GOVERNMENT BOND—The Liberty Loan

needs no comment. It is the best investment in the world.

DOUBLE GUARANTEED BOND—Northern Pacific-Great Northern Joint Guarantee of Chicago, Burlington & Quincy Collateral Trust 4 per cent., due 1921. These bonds are to be considered as in all practical ways secure and entitled to the very highest investment rating. The two most prominent railroads not only guarantee this issue, but the collateral is C., B. & Q. stock at $500 stock for every $1,000 bond. The mortgage contains many excellent other features to prevent impairment of this lien. Truly a remarkable investment!

CONSOLIDATED MORTGAGE BOND—Pennsylvania Railroad 4% per cent. bond, due Aug., 1960. These bonds are partially secured with other issues on 1,404 miles of road and appurtenances in Pennsylvania and 309 miles of leaseholds, real estate securities, etc., divided in various sections throughout the entire system. It is a second lien on some parts, a third lien on others and still a fourth lien on other sections. In spite of the diversified character of the mortgage it is one of the strongest mortgages of the greatest of all railroad systems, as it is

secured on the old main lines of the system and is protected by the most valuable leasehold. Its rating is as high as can be given an investment.

GUARANTEED LAND MORTGAGE—An investment in a guaranteed land or building mortgage of such prominent guarantors as the Lawyers Title Insurance and Trust Co. or the Title Guarantee & Trust Co., on a 5 per cent. net basis to the investor is perfectly safe. Care should always be taken to make a personal inspection of the property itself, except where the mortgage is in participation with other investors. In the latter event the investor banks on the integrity of the financial concern guaranteeing the mortgage.

SAVINGS ACCOUNTS up to the amount of $13,200 may safely be carried in five or six different banks for this purpose and will provide ready cash for many contingencies, when such cash is needed. Of course in times of stress, the savings banks are not much better than securities as to safety, but they provide a possibility for use of immediate funds when investments are down in price and therefore need not be sacrificed as the savings deposit cannot deteriorate.

The Stocks

The following stock investments for John K. King were carefully selected by the Analytical Service. Space does not permit a review such as Mr. King received but for the purpose of illustrating how every investor should go about selecting, a sentence or two is given. To follow John K.'s system of safety, the reader should pick out the salient points of the reasons when using them for his or her individual purposes.

PREFERRED STOCK—Southern Railway Preferred is an issue which is more likely to come into its own after peace has been restored. Cessation of war will mean a resumption in traffic for many of the commodities and manufactures which prior to the war found an export outlet; particularly cotton and phosphate rock. The bulk of the South's cotton plants are located along the lines of the Southern Railway system and it needs but little reflection to see to what extent traffic on this system will be revived when export of cotton and phosphate is re-established.

Earnings of the Southern Railway system are running currently at a rate equal to about

20 per cent. of the preferred stock and 7½ per cent. on the common stock, these rates comparing with 15.56 per cent. and 5.28 per cent. respectively in 1916.

PREFERRED STOCK—Cities Service Preferred is a conservative investment and we should recommend that you buy it inasmuch as you are primarily interested in the income of the stock. There is no reasonable doubt as to the ultimate safety of principal and income on this issue. The dividend is now protected by a large margin of earnings and there are very strong equities back of the issue. The price may go lower because of the investment conditions which favor higher yields on securities having a fixed rate of income. But you may buy your Cities Service Preferred without uneasiness as to its ultimate position, as it should eventually be established at a level materially above its current quotation.

PREFERRED STOCK—Kansas City Southern Preferred paying 4 per cent. annually, yields on present price 8 per cent. The rate has been maintained for nine years, and with the road in a flourishing condition there is no prospect of this return being reduced. The stock has indi-

JOHN K. KING'S HALF MILLION INVESTMENT

Security	Corporation	Price	Invested	Income
Government Bond...	Second Liberty 4%	100	100,000	4,000
1st Mtg. Bond.....	Wilson & Co. 6% due 1941.....	100	20,000	1,200
2nd Mtg. Bond.....	U. S. Steel s. f. 5% '63.....	100	30,000	1,500
Guaranteed Bond....	Allegheny & Western 1st mtg. 4% 1998	92	9,200	400
Land Mtg. Notes...	Canadian Pacific 6% notes, due 1924	101	20,200	1,200
Double Gtd. Bond..	Nor. Pac., Gt. Nor., C. B. & Q., Jt, 4% 1921.....	94	18,800	800
Consolidated Bond..	Pennsylvania 4½%, due 1960....	100	10,000	450
Collateral Tr. Bond.	Am. Telephone & Tel. 5%, due 1946, stocks as col. 133⅓% to value of issue.....	97	19,400	1,000
General Mtg. Bond..	Reading Co. 4% 1997.....	88	17,600	800
Improvement Bond..	New York Central 4%, Series A, due 2013.....	90	9,000	400
Debenture Bond....	General Electric Co. 6% gold notes 1920.....	101	10,100	600
Guaranteed Mtg.....	Some Good Title & Tr. Co.....	—	40,000	2,000
Savings Accounts...	Five or six banks.....	—	13,200	528
Preferred Stock.....	Southern Railway.....	61	12,200	1,000
" "	Cities Service.....	80	16,000	1,200
" "	Kansas City Southern.....	50	10,000	800
" "	American Sugar Co...	115	23,000	1,400
" "	Bethlehem Steel, new.....	94	18,800	1,600
Common "	Con. Gas of Baltimore.....	107	10,700	800
" "	National Biscuit Co.....	102	10,200	700
" "	Nat. Enameling & Stamping.....	41	8,200	800
" "	F. W. Woolworth.....	120	36,000	2,400
" "	Southern Pacific.....	90	18,000	1,200
" "	Northern Pacific.....	97	19,400	1,400
	Flat yield, 5.63%		500,000	28,178

cated earning power of 13.68 per cent. for the current fiscal year based on the returns to July 31, 1917, against 9.63 per cent. for 1916. Operating income and gross revenues show similar large increases over preceding years, while expenditures show no such ratio of increase considering the abnormal times and high cost of materials and labor. We are impressed with the showing of this road for the past few years, and it seems as if the rehabilitation program begun in 1906 and costing something over $16,000,000 has been completed and placed the road on a standard base throughout.

PREFERRED STOCK—American Sugar Co. Preferred stock should retain its investment value during all time. While it is true that the common stock need now be regarded as a war stock and is subject to serious speculative fluctuations, yet there is little possibility of the company's business ever being affected to the extent of impairing the 7 per cent. paid on the senior issue. The American Sugar Refining Co. owns a majority of the capital stock of the Iowa Sugar Company, one-half of the capital stock of the Spreckels Sugar Company and minority interests in the stock of the Alameda Sugar Company, the

Continental Sugar Company, the Great Western Sugar Company and the Michigan Sugar Company. Of these the Great Western Sugar Company has made the best showing by far. It is predicted that for the year 1917 in addition to the regular dividend of 1¾ per cent. on the common stock this company will pay extra dividends aggregating $40 per share.

PREFERRED STOCK — Bethlehem Steel New Preferred 8 per cent. stock is way out of line—it's one of the cheapest stocks on the list and when a few more people get afraid of it, it will be time to load up. It was publicly offered as high as 106, and now the stock walks the street with no place to go at 94. Off in the background is the 7 per cent. preferred, ticketed at around 88 and yielding only 7.85, as compared with the newcomer's return of more than 8.50. The new 8 per cent. preferred is not only prior to the 7 per cent. issue as the 8 per cent. issue alone is cumulative but has a call on the common B stock at 115. It has back of it something like $500 assets per share and average earnings from 1912-1916 of $104 a share. It may go lower, but you will want to tell your children how low you bought it and to be sure

you have a good story, buy it down and buy it on the way back.

COMMON STOCK—Consolidated Gas, Electric Light & Power of Baltimore may be regarded as a pretty good investment at around present prices. The action of this company in reducing the price of electricity and at the same time increasing the dividend rate from 7 to 8 per cent. annually reflects the strong financial position the company is in. Earnings are expected to show a continued increase in the near future, inasmuch as the company has not yet begun to receive the full benefits from its big manufacturing developments in the Baltimore City district.

COMMON STOCK, National Biscuit Co.—This company has been, of course, tremendously handicapped in the last year or two by the greatly increased cost of raw materials entering into the manufacture of biscuits. Peace should mean lower prices for such essential products as lard, flour, etc. We regard the stock as a peace stock and it may be purchased now by an investor who is willing to hold it until a return to normal conditions. The company is a magnificently managed concern and it is so well fortified financially that it could easily afford to pay dividends out

of surplus for some time even if it did not earn them. The price has been very low on account of unfavorable conditions and liquidation after the death of the former president. It is very much of an investment bargain at present.

COMMON STOCK—National Enameling & Stamping is most attractive from a semi-investment viewpoint, both because of its comparatively low selling price and because of the favorable prospects for an increase in the dividend rate or the payment of extra dividends. National Enameling & Stamping's recent expansion has been of a very substantial character and earnings of the company show a wide margin over dividend requirements. The company is now earning at the rate of between $30 and $40 a share per annum compared with $11 a share actually earned in 1916. Dividends were recently resumed at the rate of $4 a share per annum. On the basis of present earnings and dividend payments here is a wide leeway for an increase in the dividend or the payment of extra dividends, but the effect of Government taxation of excess profits must be taken into consideration in this connection.

COMMON STOCK—Woolworth is showing

steady increase in business and as an investment is always to be considered fairly secure. However, there are many uncertainties in the present situation and while the technical position of the market has been greatly improved in anticipation of the new offering of Liberty Bonds, we expect to see temporary reactions accompanying the present rally. You will assume little risk in buying Woolworth, but we think it quite possible that by adopting a waiting attitude you will be able to secure the stock somewhat cheaper. However, inasmuch as you are investing a half million in funds and intend to hold the investments indefinitely you would not assume any serious risk in making your purchase at the present time. While the stock is acceptable for you it might not be as acceptable for another in a less happy financial position than yourself.

COMMON STOCK—Southern Pacific stock, paying 6 per cent., appears at present levels to be comparatively low in price. In 1910, for example, when 12.3 per cent. was earned on the stock, it sold up to 138¼ and did not go below 103¼. In 1911 it did not sell under 104½ and in 1912 under 103½. Yet earnings at the present time are far ahead of the earnings in the years

mentioned. The explanation is due, in the first place, to the fact that railroad stocks were in much more favor in those years than they are at the present time, and, in the second place, to the fact that the war has caused the selling of railroad stocks held abroad.

Southern Pacific stock would appear to be selling at a lower price than it is intrinsically worth and can be regarded as an attractive long pull investment. Its 6 per cent. dividend looks very secure.

COMMON STOCK—Northern Pacific is a very sound investment stock and you are justified in holding it for an investment. In spite of highly increased operating and maintenance costs, under which all the railroads have been laboring, Northern Pacific has returned an operating income of $14,201,694 for the first six months of the current year as against $12,959,380 for the corresponding period of 1916. The company operates through a very rich territory and according to latest reports is showing continued improvement. The stock may go lower in sympathy with the general weakness in the market, but the road is in a strong position and we

feel sure that you will be ultimately able to value it at a considerably higher price.

John K. King's analytical reports covered two, three or four letter pages for each security, but only the bare summary has been used here for illustration. Mr. King learned to pick out the facts and apply them to his individual case such as each investor must learn to do. Throughout all the research work, John K. King noted that this formula was observed:

Safety of Principal	A Real Investment
Wide Geographic Distribution	
Wide Industry Distribution	
Income	
Stability of Price	
Marketability	
Desirable Future	
Distribution of Classes of Credit (Bonds) or Partnership (Stock)	

CHAPTER VIII

The Stock Selling Circular

What Constitutes an Investment—How to Escape the Pitfalls of the Prospectus

"WILL you please give me a letter of introduction?" a young man asked Mark Twain some years ago.

"But I do not know you; I have never seen you before," replied the great man. Nevertheless the young man pleaded and urged his case until Mark sat down and wrote him the following letter:

"To whom it may concern: I know nothing about the young man who offers you this letter, but I admire his nerve."

This is a letter of introduction of the brokerage or investment firm which sends you a letter about a speculation and terms it an investment. As you read this article thousands of American citizens are opening their mail and reading the story of the "most wonderful investment ever

offered to the public." The circular is printed in two or three colors with artistic typography and alluring illustrations. It is written by a master of the English language and it cannot fail to attract the attention of the average business man or woman. But if you are the one who has enjoyed the reading of this interesting offer of the well-known investment firm of Jones & Smith, just put it aside for a moment and ask yourself this question:

"Is this an investment?"

You know that you cannot afford to speculate. You have labored too hard and long for that surplus to lose it in a few days or weeks and you desire to invest. Therefore, it is necessary that you conserve this hard earned surplus and take no chances with it.

You wish to invest. Are you sure that this blatant prospectus is an investment? Do you know what an investment is?

What Is an Investment?

Readers will recall Beriah Sellers' Infallible Imperial Oriental Optic Liniment and Salvation for Sore Eyes—small bottles fifty cents, large

ones a dollar. Average cost, five and seven cents for the two sizes. Capital needed to manufacture the first two thousand bottles, only one hundred and fifty dollars. There are millions of people in the world. Everyone will need a bottle, for nearly everybody has opthalmia. There's millions in it! Even the schoolboy recognizes that Col. Sellers' scheme is not an investment.

Oils and mining stock ventures offer the greatest inducement for stock promotion. It is therefore among this class of offerings that the greatest danger to the public lies. Before the minister, the small retailer, the farmer or the widow answers the advertisement received in the mail, it is very necessary to repeat the following sentences:

"The distinguishing characteristic of a speculation is the fact that its value depends upon circumstances which cannot be known because the future is needed to reveal them. An investment, on the other hand, contains no 'ifs' or 'provided' or 'reasonable certainties.' Its value is founded upon certainty. A speculation is founded upon shifting sands of probability and supposition." (Meade.)

Also read over the following questions which

appeared in an editorial of the *Wall Street Journal* seventeen years ago and apply them:

1. What were the plants able to earn on the average for the five years preceding the combination?

2. What would this amount have paid on the present amount of stock?

3. How much have expenses been reduced by consolidation?

4. What will the combination have to earn net to pay 7 per cent. on its preferred stock?

5. How much in excess of that amount is the company earning now?

6. What is the amount of its net floating debt?

7. How is the floating debt secured?

8. Is the corporation hampered by burdensome contracts?

9. Can it enforce its own contracts with buyers?

10. What is the extent of the competition encountered?

11. What is the possibility of reducing operating expenses?

12. Is the management in every way competent and satisfactory?

Now, if you are not accustomed to the study

of investments you will perhaps say, "What good will it do me to ask all these questions, for when I find out the answers I shall not know much more than I did before?"

The fact of the matter is that unless you are able to understand these questions and answers, you have no right to invest your money and you should be careful never to be guided alone by the circular or prospectus of any investment or brokerage firm. And if you have surplus funds, you are not true to yourself or your dependents unless you do learn what an investment is and educate yourself in all matters financial, even though this education is elementary.

The Business of Investing

Let us suppose that Mrs. Jones lives in Keokuk. Her husband, who was a druggist, accumulated a moderate fortune of ten thousand dollars. He died, leaving his widow with one child about ten years of age, and all his accumulated fortune went to his widow.

Even though Mrs. Jones had neglected an elementary financial education, she knew enough to refrain from going into the shoe business on Main street of Keokuk. She did not know any-

No..... CERTIFICATE OF 30 DAY RIGHT

OF THE

OKLAHOMA OIL & REFINING COMPANY

This Certificate of 30 Day Right Entitles

.....

to purchase.....shares, or any part thereof, of the stock of the OKLAHOMA OIL & REFINING COMPANY, at $1.00 per share at any time between October 1, 1917 and November 1, 1917, the present price of stock being $1.25 per share.

THIS CERTIFICATE OF 30 DAY RIGHT entitles the holder to have and receive the 5% dividend payable pro rata to stockholders of record October 1, 1917, and is payable on stock issued on this certificate.

THIS CERTIFICATE OF 30 DAY RIGHT may be used for all or any part thereof for cash or on our "SPECIAL PAYMENT PLAN" of 25% with the order and 25% each month until fully paid.

THIS CERTIFICATE OF 30 DAY RIGHT must be returned on or before November 1, 1917. It is void thereafter.

MIDWEST SECURITIES CORPORATION

Dated this First day of October, 1917

By

PRESIDENT

Novel Method of Selling Stock

thing about the shoe business and would not jeopardize her capital, for she knew of no means of getting it back if lost.

But there are thousands of Mrs. Joneses all over this country who are willing to "invest" their capital in the Acme Oil Co. or the Bonanza Mining Co. simply because some broker (?) sends them an attractive circular.

And the Business of Investing is a thousand times more difficult to learn than the business of selling shoes.

In the former chapters of this book the writer has endeavored to show what an investment really is and how the novice should go about investigating and learning. The suggestions have been elementary because it is necessary to lay the ground work of first principles. It is this same phase of education which the incipient investor must absorb before he or she risks one dollar.

Educated men, even in the ministry and law, will study the theory of economics, will dig into the intricacies of bi-metallism and the study of the gold reserve, but will "fall" for the first attractive circular of a new oil venture without knowing one thing about it. Reader, do not

imagine that you are above this class of citizen. Unless you know the elementary psychology of the fake stock promoter, you are not insured against loss.

The Safety of Principal

No real investor will buy a security whose value is in any way doubtful. The stock or bond of stable value is the only kind that interests him. He wants to feel that the principal is reasonably safe and that, barring market fluctuations or world wars, he may sell it without loss in the event of necessity. If he is satisfied with the safety of his principal, he will sacrifice a large return in interest.

The interest return, however, must be based on the condition of the times. Back in 1902 anything over 4½ per cent. was taught to be on the verge of speculation, but today different conditions prevail and in 1917 there were excellent investments yielding from 6 to 8 per cent. Therefore, the rate of interest cannot be taken as a criterion to differentiate between an investment and a speculation.

The big financial institutions, insurance companies, banks and trust companies are the big

investors of this country. Executors and trustees, the fiduciaries who hold funds for others, are also big investors. These big investors demand *safety* before any other consideration. That must be your first thought in making an investment—Safety!

The Psychological Appeal

It is true that we have steadily been educating ourselves in financial matters, but the prevailing psychology to induce an investor to buy stock in a speculation is the same today as it was in 1902, when Edward Sherwood Meade, Ph.D., wrote:

"Here are the principal inducements offered to the speculator in every new enterprise:

"Other men have made money in similar enterprises. Why should not he be equally fortunate? He is not asked to gamble, but merely to investigate an industrial opportunity and act as his judgment directs. He is carried away by the prevailing optimism of the time, and he is ready to listen to the advocates of new schemes for getting rich. Other people are making money fast, and he is certain of his ability to do as well as they. The appeal to his 'judgment' and

his 'courage' is the bit of flattery which is often decisive, and the final outcome is that the man of small means 'invests' $100, $200 or $5,000 in the stock of a new company in the confident expectation that from this small investment he will one day reap a fortune."

The chances are that the harvest will be a ream of worthless or near-worthless stock certificates.

Speculator or Investor?

This series of articles is for the investor. The speculator has his individual field and he is a great asset to any young country. It is a doubtful question which is the more beneficial to a growing country, the speculator or the investor. But speculation is even a greater science than investment and must be left to the professional. Every man with a surplus dollar should be an investor, but the speculator is a specialist. His gains are rightly large because his losses are in proportion. The speculator must be in a position where he can afford to lose; the small investor is never in that position.

It has been argued that it is beneficial to a country to have speculative experiments tried at

the expense of the venturesome. This argument may or may not be right, but the investor can readily see that the only way it should affect him is to evolve an investment from what was originally a venturesome speculation.

Continuous Supervision

There is another well-known psychological phase about the investor which demands comment. Once an investment is made the investor is apt to forget about it.

Outside of having his holdings periodically examined and judged, there is much that every investor ought to know to help himself. Here are a few of the suggestions:

1. If a stock, have it transferred to your name, or, if a bond, at least have the principal registered in your name. If this is done, you will be the recipient of all notices from the company and will be able to study developments. You will receive proxies for voting, reports of earnings, notices of special meetings, certificates representing valuable "rights" if issued, and you will unconsciously compare your company with its competitors.

2. Read the quotations of the sales of your

investments as often as they are shown in the newspapers or financial publications. The fact that a big change suddenly occurs either up or down in your investment means something which is likely to affect its value. It is time for you to get after the facts at once. Many New Haven Railroad investors never noticed the drop in price of their stock until the loss had become serious.

3. When you are mentally satisfied that you have made an honest mistake in judgment in an investment, do not deceive yourself into thinking it "may come out all right some day." This plan of reasoning is much like the man who plays solitaire and cheats himself to make the cards come out right. Switch into something else and the chances are you will be right the second time, for the lesson of the first will have been a liberal education.

Conclusion

Whether you are rich or poor, if you are an investor or need to be an investor, educate yourself before making the first step.

Do not be deceived by the prospectus or circular of a new promotion. Learn to develop the character of a professional buyer and you will

be able to meet the Svengali hypnotism of the stock salesman who offers a speculation.

Learn what an investment really is. Ask the questions which have been outlined in this article and as many more as you can think of and be able to understand the answers to these questions and to pick the flaws in the salesman's reasoning, if there are flaws.

Do not become a speculator when you are by habit and position an investor.

Keep constant track of your investments.

CHAPTER IX

Tricks of the Unreliable Broker

New Promotions—Ventures Which Are Not Investments—How to Investigate

"WE stopped and looked at our stockholders, some surprised. It wasn't quite the kind of a gang we supposed had been investing. They all looked like poor people; there were plenty of old women and lots of young girls that you'd say worked in factories and mills. Some were old men that looked like war veterans, and some were crippled, and a good many were just kids—bootblacks and newsboys and messengers. Some were working men in overalls, with their sleeves rolled up. Not one of the gang looked like a stockholder in anything unless it was a peanut stand. But they all had Golconda stock and looked as sick as you please." Such is O. Henry's description of the investors in a fake mining scheme, from "The Gentle Graft-

er." It is amusing fiction, but is it so much different from the real thing?

A Pitiful Letter

The following is a letter from a woman who did not have very much to lose. If she lost her little capital she had no means of replacing it. She is an investor. She is living today and her letter is typical of thousands of others.

"Dear Sirs: Messrs. ——— & Co., —— ——— Street, did me a very dirty trick. They roped me into buying 5,700 shares of ——— —— at 1 9/16 on a margin. I saw they did not buy or hold the stock but just kept my money, and as they said I had nothing for my money but the interest of the stock and *them* for my cash. I paid up the margin and asked for my stock also 100 shares ——— ——— stock May 16th, but week after week they would not send me my stocks.

"Then Mr. ——— came here, 164 miles, to see me and told me my ——— ——— stock was going away down and he advised me to change it at even ——— and take ——— ———, a stock that they give you in two minutes after they force you into buying it. They forced me into buying 3,000 shares one day before I got out of their office and made me pay cash. Now they say I sold my ——— and gave Mr. ——— orders to buy ——— and have kept my stock and sent me ——— ——— stock and will not do anything. I sent a telegram same day saying, 'Do not sell my ——— ——stock; for I knew when they told you about a

stock they would say they bought 3000 or more thousand shares and make you take it on margin.

"My ——— ——— stock they would not deliver until they got the rights and kept them. The rights were worth $540, but they won't do a thing. I now hold 8,700 shares ——— ——— and they kept my ——— ——— stock. What would you advise me to do? Can I sell the ——— ——— or is it a real thing or a bunko? I did not tell them to sell my ——— ——— stock and above all to buy 5,700 shares ——— ——— for I hated the 3,000 shares I had.

"Kindly advise me and oblige."

The summary of the advice is: First, do not attempt to invest until you know what an investment is and then get the opinion of experts before taking the first steps.

Second, read and educate yourself so that you can invest intelligently.

Third, do not become the cat's-paw for brokers who are not brokers but probably "fly-by-nights."

Fourth, in this particular case, complain to the police department. Also get an attorney.

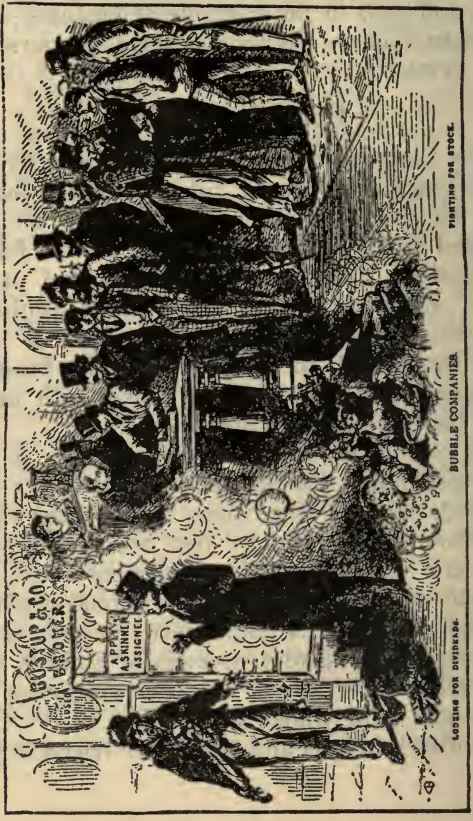
Until we become a country of investors, until we establish schools showing how to invest and how to protect what has been earned by the sweat of the brow so that it will not land in the bank accounts of the thieves, we have not conserved our resources. Public schools train

boys and girls in the methods of business—how to make money. Where is there a course on how to keep it?

How They Do It

The campaign of a few years back by the larger exchanges to get rid of "bucket shops" was the real beginning of the end for the crooked broker. From that point on, the fakers reorganized their various schemes and established offices which "apparently" did a legitimate business. If one of these firms did not have sufficient capital, the process of doing business was somewhat as follows, of course with variations depending on circumstances:

An out of town retail grocer notices in the daily paper that the oil stocks are booming and he reads tales of large sums having been made by insiders and even by just ordinary people. He has no brokerage connections and the thought enters his mind that he should profit as well as others. His home town, or city, newspaper contains the advertisement of Smith & Co., who tell of the merits of some prominent oil stock now being traded in on the "Curb." Correspondence follows and our grocer friend is per-



An Old Print Illustrating an Old Game

suaded to "take a flyer." He thinks that he is "investing."

A check for $1,000, which should have been invested in good 5 or 6 per cent. baby bonds, or in a good preferred stock, is sent with the order to purchase the oil stock. Smith & Co. send back a report that the stock has been purchased and proper entries are made on their books. If the stock goes down, actual purchase is made, and not until then, but purchase is not made at the time the order goes in. If the stock goes up, Smith & Co. take advantage of the grocer's ignorance and suggest that he switch his "investment" to another stock, usually oil or mining. This second stock is of a type which the firm has bought up by the ream and there is plenty of paper printed to look like real certificates. If the grocer does not desire to make this switch, a representative of the firm, whose personality is of the persuasive kind, takes a trip out to the country town or city to see his prospect. The very fact that a representative of the firm takes the trouble to make this trip tickles the vanity of our grocer-investor and it is a simple matter to persuade him. Thus, the firm of Smith & Co. has been able to distribute a worth-

less security through the brokerage on a real security.

Women the Prospects?

Investment education is only beginning. The Liberty Loans did much toward this education, but, in the mean time, the best prospects for the "fly-by-night" concerns are women. The appeal of advertising literature is such that women have more time to take cognizance of it. To many of them investment appeals as a broader field in the business of life, and they are eager to learn and readier than the average man to take a chance.

Up to the present time, the women who have entered the brokerage and investment business as a profession have been of the highest type and they desire only to protect their own sex. But the oily salesman of undesirable character still exerts his energy among women with money and it is unfortunate that he is able to succeed so well.

It is difficult for the woman with a husband to attempt the management of her own financial affairs, because the man usually feels that all such matters are a part of his business and his

wife should not attempt to interfere. The time is coming when the investment of family funds will be discussed in family conference.

In the meantime, no woman should attempt investment or become connected with any brokerage firm in a business way, until she has first investigated the standing of the firm in question. Furthermore, whenever an order has been placed for the purchase of securities the customer should arrange for the delivery of the actual certificates at once. If the firm makes excuses which are unreasonable on their very face, the matter should be placed in legal or post-office hands without delay.

The Stability of Investments

Thousands upon thousands of good solid citizens think of oil and mining stocks as investments similar to railroad and industrial bonds and stocks. It is certainly true that wealth from the soil should be classed in this category, but the fact remains that very few of the oil and mining securities compare with rails and industrials in the matter of stability. Standard Oil securities, Anaconda Copper, and others of like character are in the minds of prospective in-

vestors. The illustration of United Verde Extension selling from 40 cents a share to $40 a share is the incentive for others. Not so very long ago, the whole country was deluged with advertisements about a new candy business. These circulars pointed out the attractiveness of a business like Huyler's. The whole structure fell to the ground. Men of prominence who inadvertently lent their names suffered in consequence.

Years ago investors listened to William Paterson, whose Darien scheme was a gigantic swindle. French kings and premiers fêted John Law, whose Mississippi Bubble burst with awful violence. All England listened to Sir John Blunt, whose South Sea Bubble wrecked thousands of fortunes and reputations and it is not so long ago that John Keely invented the Keely Motor in this country and investors from Europe came to praise it.

Back in 1906 private cars of seasoned financiers could be seen rushing to Goldfield. Soon after Goldfield Daisy and Goldfield Consolidated were actively traded in on the New York Curb, while the San Francisco Stock Exchange had as many mining stocks listed on it as the London

Exchange had world wide issues. Many of the attractive certificates today either line the strong boxes of "investors" never to be disturbed, or they have been sold at ½ cent a pound to be converted into paper for commercial purposes.

Back in 1910 the writer was in Los Angeles, the new oil district. Every newsboy and ribbon counter clerk had a sheaf of oil certificates tucked away in the hope of sudden riches. The climax came as usual and as it always will. Most of the enterprises were fake ones and were conducted by irresponsible firms. It was difficult to discern what was really bona fide.

Many newspapers and financial publications are eliminating this class of irresponsible advertising from their pages. It is true that the beginning is small and there is much to be done. But the fact that there is a beginning means something better for the big army of future investors.

A short time ago, the editor of a newspaper received a special delivery letter from a "brokerage firm" in New York City. The letter was received just before going to press and contained the advertisement of a new oil company. "Take this advertisement at your own rates" was the message. It would not have been surprising

if the country editor, not knowing financial conditions, had accepted it. If he had printed it, someone in that little town, calling himself an investor, would probably have lost hard earned savings.

While you are reading this article, certain so-called brokerage firms have representatives throughout the United States selling securities of new automobile ventures. The salesmen are well dressed, appear affluent and are wonderful "talkers." No one knows how much money "investors" will throw into the coffers of these auto companies which may never be more than incorporations in the records of the state.

An Illustration

Here is an example of a mining scheme back in the early seventies and the analogy holds good to-day:

Mr. A.—, a gentleman having some connections with the mining interests of the country, and owning a claim which had been staked out on some auriferous ledge in Colorado, being naturally desirous of disposing of his property to advantage, would go to some "prominent banker" for the purpose of negotiating a sale. But "prom-

inent bankers" are not in the habit of paying cash for property two thousand miles away. Accordingly a proposition would be taken up to make the claim the basis of a stock company, and that the owner convey his property in it to the company and receive therefor a certain sum in cash, say $10,000, to be paid out of the first subscriptions, and also a certain number of shares of the stock.

The capital might be two million dollars, represented by shares of $50 each or 40,000 in all. An assay is made and literature sent out. Some wealthy merchant or some prominent man lends his name and the directors are also "made prominent" if they are not already so. Usually these "big" names get the stock at $12.50 when it is offered to the public at $25.

Officers and a name are selected. The prospectus in excellent topographical detail is distributed and the "investors" have a chance to subscribe before Nov. 10, after which date the books close and "the opportunity is gone forever." Needless to say the stock is sold, and after a fitful spell of manipulation, the company, name and officers drift into oblivion. Of course the actual claim exists. But that is all.

Conclusion

The former chapters in this series have endeavored to point out the salient points of an investment. This chapter points out one of the nasty features of brokerage which is not investment and never will be investment.

Readers may wonder why the chapter in question appears in "What Every Investor Ought to know." No one's intelligence need be insulted when the big estates of the most prominent financiers we have known contain reams of "cats and dogs." Beware of the insidious stock salesman and the irresponsible brokerage firm.

Before answering an advertisement apply for information to a responsible source of information.

CHAPTER X

Record Your Wealth

Transfer Stock to Your Name—Rent a Safe Deposit Vault—Some Pertinent Examples

THERE are hundreds of dangers for the man or woman who owns any kind of wealth. The investor must learn first of all how to gain money, then he must study twice as hard to learn how to keep his capital intact, and finally he must observe every known rule to know how to protect the certificates which represent his wealth.

There are three elementary methods of protecting a bond or stock certificate. The first—and riskiest—method is to keep it about one's person or home; the second is to permit the banker or broker to hold it; and the third is to use a safe deposit vault. This article with its various illustrations has reference to the two last, and common sense, methods.

Case 1. The Negligent Man

Mr. George Brown of Chicago invested $200,000 through his bank and had the securities shipped to the bank on draft. The bank officials were not well informed as to the authenticity of these evidences of wealth, and, in Mr. Brown's presence, placed the securities in his vault. At his death five years later, the administrators of his estate found that $10,000 of the bonds were registered as to principal and had never been released. The original owner had died. It took many months and much money to make these bonds salable.

Case 2. Neglect to Transfer

Mr. Jacob Crowley of New York City purchased 50,000 shares of Rex Mining stock. He was "taking a flyer"; the company was a prospect and there was no indication of any such pleasurable features as dividends. At no time was there ever a thought of a reason for transferring these shares. Mr. C. gathered his roll of certificates, failed to examine them and dug out a resting place in his safe. He had pur-

chased the stock at 40 cents a share and was holding it for 80 cents.

On the 24th day of March the directors of Rex declared that all stockholders of March 31 whose names were on the company's books would have the privilege of subscribing for 10 shares of new stock for every hundred shares shown to be owned on the books. The subscription price was 30 cents. The stock was then selling for 50 cents. Mr. C. could buy 5,000 shares at 30 cents and sell for 50 cents. A profit of $1,000. Inasmuch as Mr. Crowley's name was not on the books of the company, he did not hear of his windfall. Some one else got that privilege. It was never claimed and the $1,000 was lost forever.

Case 3. The Lost Dividend

Back in 1907 the Southern Pacific Co. had preferred shares. Mr. Walter Green, a broker, held 100 shares. There was a demand by the "odd lot" firms to borrow this stock against sales for which the actual stock was not at hand. Mr. Green loaned his stock. Later he called it in and received another certificate in another name. He

immediately transferred the new certificate to his own name.

When the company paid its final dividend Mr. Green received a check covering 200 shares. The borrower, or the buyer to whom the borrower had delivered the first 100 shares, had never transferred the stock. Ten years later Mr. Green still retained the extra dividend and there was no hope of ever tracing it to Mr. Green. Some careless man or firm had neglected the transfer.

Case 4. Neglect to Keep a Record

A wealthy Mrs. Ward, residing on Riverside Drive, New York City, kept her securities in a safe deposit vault. She, however, kept no record of what was in the vault. About the first of the month, she opened her security box to clip some coupons, and after finishing the clipping, replaced the bonds and stock. She wore a rather long veil and the folds caught and held out a one thousand dollar Anglo-French 5 per cent. bond which is very much smaller in size than is customary. Unknown to her the veil carried this bond out of the office and as she stepped to

the pavement, a gust of wind blew it to the street where it was soon churned into an unrecognizable mass. She never knew the number of the bond; it was not registered, and all she could know was that she had purchased the bond, but could never trace its disappearance.

Needless to say Mrs. Ward ever after kept a full record of what she owned including a description.

Case 5. He Left Securities with the Broker

Mr. Henry Leroy of New Rochelle, N. Y., was a wealthy man but was accustomed to increase his wealth by a series of speculations through a well known brokerage firm. Mr. Leroy was not an habitual trader, so that often, after a "campaign," he left a credit of both money and securities—in negotiable form—with his broker.

Now all good and reliable brokers make it a strict custom to set aside the securities of customers which are paid for in full and left for safe keeping, or for margin when needed. These "good" brokers place such securities in an envelope marked as the "Property of Henry Leroy" and on the statement rendered they are listed,

"Held for safe-keeping." But Mr. Leroy's brokers were not of this "good" type. Mr. L. did not insist upon this method of business, so that when X, Y, Z & Co. failed, it was discovered that Henry Leroy's securities had been used by the firm and were thoroughly tangled up with the disaster. It was a costly lesson but thousands of other careless investors have suffered and will suffer in the same manner.

Case 6. 5000 Shares of Nipissing Mines

A prominent merchant in the tobacco business with headquarters in New York City presented 5,000 shares of Nipissing mines to the cashier of a brokerage firm in New York City a few years ago. In all there were 100 certificates ranging from 5 shares to 100 shares.

This investor had not transferred the stock and had neglected to collect two dividends amounting to about $1 per share in all. The cashier began the search, getting the addresses from the company's books. After ten months' work, he collected $4,200 of the $5,000 due and the cost of collecting in postage, time and fees amounted to $100. The loss was about $900.

There was absolutely no excuse for such negligence.

Case 7. What Happens to a Non-Dividend Payer

Mr. Edward Dayton of Salt Lake City owned 100 shares of Wabash Railroad stock (common). Wabash had about as much chance of paying a dividend as Comstock Tunnel has today. Mr. Dayton owned a drug store and never read a financial magazine.

One day the Wabash R. R. drifted into the hands of a receiver and the *registered* stockholders were so notified. Mr. D. was not a registered stockholder and he did not hear of the trouble. All registered holders, or those holding endorsed certificates, were permitted to pay an assessment and get into the new company up to a certain date. After that date the old stock became worthless paper.

Mr. D. now holds worthless paper. Incidentally, there are a few who did not pay the assessment when Northern Pacific reorganized years ago. They also hold worthless paper. Mr. D. now knows that it is better to be on the books

of the company as a holder of stock and he will get all the announcements sent out in the future.

Case 8. Keeping Track of Dividends

A prominent editor of a nationally known periodical, whose business acumen is recognized—or was recognized—by his friends had a speculative account with a brokerage firm. He held various issues of securities and accepted the statement from his broker each month, just as he might glance over the headlines of his newspaper while going home in the subway.

Among the securities was American Chicle, which paid a dividend. This fact was overlooked by the broker's clerks and nary a credit did Mr. Editor get for these dividends, but he did not suffer; for he never knew. Had he followed the announcements he would have noted the absence of this item at once and held his broker for it. Of course the broker was responsible for the collection in this case.

Case 9. A Forgery Case

A clerk in a New York Trust Co. gained access to the blank certificates of a prominent

corporation whose stock is listed on the New York Stock Exchange. He filled these blanks out to John Jones, endorsed Jones' name and forged the signatures of the transfer agent and registrar. He took the certificates to Philadelphia and borrowed 80 per cent. of their value, about $25,000, and left for South America.

During the course of business one of these certificates fell into the hands of a bona fide investor, Mr. Gerald Nelson, who sent the certificate to the company to be transferred to his name. The records showed that there was no John Jones and that more than the authorized capital of the company had been issued.

The forgery came to light and Mr. Nelson was able to recover back to the original lender. Had he not transferred the stock at once the complications would have been serious. Has any reader a forged certificate not as yet transferred to his name?

Case 10. He Lost His Stock

A Buffalo, N. Y., investor bought 100 May Department Stores and paid for it. He carried it in his pocket preparatory to placing it in his

safe deposit box, but did not transfer it to his name. He did one sensible thing: he jotted down the number of the certificate in his memorandum book. While walking along the street, he accidentally jerked it from his pocket and did not at once notice the loss. The discovery was made at the vault.

Under ordinary circumstances the replacing of this certificate is serious and sufficient trouble even if registered in his own name, but the situation became complicated. He learned the name of the registered holder who lived in Cincinnati. It was necessary to get a full release from this man to himself of that particular certificate and the legal red tape is Gordian Knot-like.

Suppose the registered owner had left for parts unknown or had died? Will any rightminded investor take a chance like this?

Case 11. Texas Co. Rights

A Chicago customer of a large brokerage firm owned 100 shares of Texas Co. stock. Nearly every year this company increased its capital and the holder of the stock received a certificate showing that he had the right to subscribe for

new stock. Sometimes the sale value of such right amounted to 30 dollars per share.

This customer slept peacefully and never knew he could claim these rights until market conditions had lowered the price of the stock and consequently the value of the rights. This example happens daily to many hundreds of investors who fail to transfer their stock.

Case 12. A Letter from a Cashier

"Last Monday a customer called us on the 'phone asking why he did not receive a dividend on an odd lot of stock bought around the latter part of September, which sold ex-dividend the first part of October. The dividend was paid about the last of that month. Upon our asking him to look at the certificate and let us know in whose name it was, he reported the name of a firm well known in the brokerage business. He had assumed that because he bought the stock that it would be in his own name. (And this man called himself an investor!)

"Our second case was an individual who had purchased a non-dividend paying stock years ago which stood in the name of a firm which

had liquidated its affairs and closed up over a year ago. This man was pressed for funds but the stock was not a 'good delivery,' not acceptable to the buyer under the circumstances, and the man was compelled to go without his money until all legal complications were cleared away. His suffering and inconvenience might have been intensified, had the transfer office been in Arizona or had he been unknown to the firm through which he sold the stock."

In Conclusion

While the names used are fictitious yet the principles set forth are only too true and will happen time and time again unless the investor observe the fundamental rules of self protection. The investor who pays for his stock and who does not transfer it to his own name is no better than the householder who goes to Atlantic City for the week-end forgetting to close or lock the front and back doors or the windows of his home, where the silver and valuables are tempting bait for the first unscrupulous citizen whose eyes turn that way.

CHAPTER XI

Gossip and Its Value

How Much Value Newspaper Items and Brokers' Gossip Has—A Formula for Asking Questions

A SUCCESSFUL business man, once upon a time, found it necessary to consult a famous lawyer. The case was one which involved technical terms and hinged on judicial decisions of an intricate nature. The lawyer questioned his client, cross-examined him and recross-examined him. He then formed a two thousand word hypothetical question and gave the answer. The client allowed his mind to wander during the discourse because he could not follow the peculiar and specialized language of the legal profession. After the lawyer had used about $200 worth of legal time, he reached a conclusion. The client realized that the legal train had reached a station but he did not know

the name of the station, so he asked, "Have I any chance of winning this case?"

The investor—the average investor—is not one whit different from the above mentioned business man. All he wants to know is whether his prospective investment is the right one for him to make, or the wrong one for a man of his circumstances. The language of finance is just as confusing as the language of law. Many of the books which are written by experts in finance are thoroughly impossible to the average investor.

"Newspaper Dope"

It is remarkable how many people always believe what they read in the newspapers. All news is made presentable and in giving it this dressing the salient point is often lost or minimized. Sometimes a paragraph or a column in the newspaper could easily be boiled down to five lines. Many reporters are paid space rates.

Financial news as printed in the very best general newspapers is treated in the same manner as the story of John Smith's wife running off with John's chauffeur. The writer recently

went through a file of clippings covering the past two years of Curtiss Aeroplane Company's history. Rumors were stated as facts. Statements of officials were printed without being checked. One article reported millions of Government orders and another reported none. If you, Mr. Average Investor, had invested your funds on this news—as many do—you would have either made a million dollars or gone broke. In either case you could have reached the same result by going at it blindly.

Most financial writers hedge in their forecasts. After you have read the article, you determine that Brown in the *Express* thinks the market is going up. It goes down. You write Brown a letter of criticism and make fun of his judgment. Brown shows you where he said "something" in that very article which you overlooked which meant that the market was more likely to go down. Then you feel that you have made yourself ridiculous, but it does not prevent you from believing in the *Owl*.

Before you make any investments based on financial news as appearing in the daily papers, get a back file and chart out the predictions

and statements. Then see how they fit in with what actually happened.

Do not base your investments purely on newspaper predictions or suggestions. Check them up with the formulæ which close this article.

Stock-Brokers' Suggestions

The man who represents his firm on the Stock Exchange is deemed by the layman to have "inside" information which is very valuable. There may be some brokers, whose daily business it is to execute orders, who also have a good knowledge of investments. Certain clients have been hunting for many of these "investment specialists" for years and have metaphorical double-barreled shot guns to use when they meet them. Just stop and think, Mr. Average Investor, and ask yourself how these brokers who are buying and selling all day long can have time to study real investment conditions. The member brokers have too close a perspective. They are like men standing close to a wall. They can only see a few square inches of it and not the whole wall.

The stock broker is not usually the best man to ask about investments. His speculative acumen may be above par, but there is a wide difference between investment and speculative knowledge. There are some stock brokers who make a specialty of investment conditions and others who hire men for no other purpose than to hunt out good investments. They are part of the formulæ which will be presented to you.

Corporate Reports

In the goodness of your heart, Mr. Average Investor, you purchased five shares of Southern Pacific, gave it to your wife and had the stock transferred to her name. One day, while you are at business, the postman brings a 200-page yearly report to your wife. It contains a special message from the president to stockholders, another from the treasurer, a certified statement from the accountants, and 20 or 30 exhibits, ending up with a wonderful map of the United States with the Southern Pacific road superimposed in red lines.

You watch your wife with much interest. She

glances through the costly report and reaches the map. She notes Oshkosh, where her sister lives, turns the book over and quietly drops it in the library waste basket. Later, after she has retired, you fish it out and note that the president says everything is running well and that it is costing the company much money for taxes. But the report does not mean much to you unless you have learned to separate the chaff from the wheat. The fact that your road earned $13 a share during the year means little unless you have the comparison of former years, the comparison with other trunk lines in the same territory, the condition of surplus, the item of depreciation, the condition of the rolling stock, etc.

You have been a very busy man accumulating money to invest, but you have not had the time or inclination to become a specialist in reading a railroad report. The same situation applies to your industrial, mining and public utility stocks. Your bond investments demand a separate training. It is clear that to protect yourself you should at least know how to ask questions and learn who are the proper authorities to answer them.

Subway and Office Gossip

The writer knew of one man who bought 100 shares of U. S. Steel preferred as an investment. He was sitting in his broker's office when he received the report. Another customer, of a speculative type, made a remark which he overheard. He did not know the man and the remark was made to a third customer likewise unknown to the involuntary eavesdropper. The remark was: "I believe the Steel stocks are going to the dogs."

Our investor felt that he had made a mistake. He wanted to sell his recent purchase right away and had to use considerable will power to hold faith in his judgment.

How many of you, Average Investors, have been influenced by remarks overheard in the subway, street cars, trains and other public places? Probably hundreds of thousands of shares and millions in bonds have been purchased and sold as the consequence of involuntary eavesdropping in public places. It is a true bill against the uneducated condition of the average investor. The chances are nine hundred and ninety-nine in one thousand that the speaker knows no more about an investment than you know about

the lumber business, and yet you permit yourself to be influenced by a man who is probably more ignorant than yourself.

The Lure of the Pamphlet

"Diamond Jim" Brady was one of the greatest salesmen which this country ever produced. As an efficient business man he possessed a world-wide reputation. His associates were railroad presidents and men high in finance. Yet his estate was chock full of worthless shares. Whether these were purchased to please casual friends or because of the representations of literary (?) prospectuses no one will ever know. There is no difference in the psychology or the material result. A friend who has "a good thing" and a glowing prospectus are twin brothers.

This does not mean that every efficient and alluring prospectus is untrue and does not represent a good investment. But the average investor must not base his judgment on the evidence submitted by the plaintiff. Credible witnesses are just as important to an investment as they are to substantiate evidence in law. Where will you find these witnesses?

The Formula for Mr. Average Investor

(1) He must know what questions to ask.
   a. Is this the right investment for me and my capital?
   b. Have I followed "John K. King's" formula?
   c. Have I verified the newspaper reports?
   d. Have I asked the right questions about the report?
      1. What are the questions to ask about railroads?
      2. What are the questions to ask about industrials?
      3. What are the questions to ask about oils?
      4. What are the questions to ask about mining stocks?
      5. What are the questions to ask about bonds?
      6. What are the questions to ask about public utilities?
      7. What are the questions to ask about this investment?
   e. Have I given "Dame Rumor" too much credence?

f. Have I checked up the statements of the prospectus?

(2) He must know where to get his information.

a. What does my investment broker think?
   1. Has he any interest in the security?
   2. Is he antagonistic for personal reasons?

b. What does my banker think of its worth?
   1. Is his conservatism too pronounced?
   2. Is his ability any better than mine to analyze?

c. What is the judgment of my financial publication?
   1. Have they any personal interest in the security?
   2. Have they given me a definite opinion?
   3. Have they ferreted out the essential facts?
   4. Are they equipped with trained experts, accurate statistics and seasoned judgment?

I firmly believe that, everything considered, the Analytical Bureaus of unprejudiced financial publications are the best source of information

on which to base your decisions. It is their business, and like the competent lawyer they have the data and information on which their opinions are based. You must, however, have some basis of knowledge on which to ask the proper questions and understand the answers when you get them.

CHAPTER XII

One Hundred Books to Read

A Classification of the Best Books for Study By the Investor

IN all the preceding articles of this series, the author has bared the fundamental features which every investor should have in mind before making an investment. The field is so vast that it is not possible to go into detail for each subject. But the reader has no doubt felt a desire to go deeper into one or more phases, and it is for this purpose that the One Hundred Books are listed and grouped for him in this article.

The Groups

The elementary books cover the subject as a whole in Group I. They place before the student the geography and the machinery of the subject.

Group II deals with the definitions of investments, shows which are good and which are bad.

It takes into consideration the different reasons why investments are made, such as for income, for profits, etc.

Group III contains the only fundamental books known on the subject of speculation. Almost all other speculative books deal in generalities and are not the result of actual study and experience, nor do other books express themselves in as definite a manner with so many concrete examples.

Intermediate Studies

The books in this group cover the entire subject of finance. They can be understood and appreciated by all readers who have thoroughly understood the books in the preceding groups. Their purpose is to go deeper into the structure of corporate history and to take up the more intricate forms of investment and speculative machinery.

The Various Branches

Group V takes into consideration a study of the various forms of corporate enterprise and

also the principal commodities. Collateral branches of investment such as land mortgages, farm loans and insurance are not taken up in detail but are covered in an elementary form in other books, such as Book 4 in Group II. These books are self-explanatory to the student from the very nature of the subjects, but they will not be fully understood nor their application in a practical way established unless they are studied after a course in the former groups.

The Post Graduate Course

The books listed in Group VI are not ones which the novice will understand or appreciate. They state much of the theory of finance which is only applicable after the student has a basic knowledge of the subject. Book 6, for example, would not be intelligible to the novice nor could he use the information until he was able to comprehend the relationship of banking with conditions affecting the price of securities.

Do not for one moment think that these hundred books can be read and digested in one year or two years. Nor does the author suggest that the knowledge gained from this reading may

be utilized to personal practical advantage without the actual experience of *doing* the things which are discussed.

If you, reader, have been speculating in mining stocks, you will desire to read the books of Group I, Group III, Books 2, 3, 6, 8, 11, 14 and 16 of Group IV and have on hand all the books of Group V under the head of Mines and Oils. If your desire to trade in wheat, you will choose from the titles the books which you know will be of practical use to you from the groups.

While it is a well known fact that most people desire the name of investor and taboo the name of Speculator, yet neither Investor nor Speculator should omit a study of either one of the subjects. Group II is very much inter-related with Group III and the fundamental features dovetail.

Magazine and Papers

The student of finance must of necessity keep up to the times. He must read his morning and evening papers especially for the statistics and the general news. Note Book 5 of Group I. It is also well for him to subscribe for some periodical which will help to arrange his statistics in understandable form. There are a number of

New York newspapers which issue yearly financial reviews containing these essential statistics and the bound volumes of THE MAGAZINE OF WALL STREET contain railroad, industrial, and banking statistics for years back.

Each trade has its publication—many of the trades have two or more publications devoted exclusively to the one business.

Other publications which will be of assistance to the advanced student are the London *Economist,* New York *Journal of Commerce, Wall Street Journal, The Commercial and Financial Chronicle* and *The Bankers Magazine.* The reports of the United States Interstate Commerce Commission, United States Treasury Department reports and the reports of Gas and Electric Light Commissioners of the various states may be obtained without much trouble and at a small cost, or may be found on file at the principal libraries. But there is no other non-technical magazine covering the elementary ground of all branches except THE MAGAZINE OF WALL STREET.

A Short Course from the Elementary

For those who are desirous of reading only a few books on the subject, the following list has

been suggested to the author by one of the best students of finance, comprising investment and speculation, who writes much for the public:

Introductory:

Money and Investments.—Rollins.
The Machinery of Wall Street.—Seldon.
How to Read the Fnancial Page.—Browne.
You and Your Broker.—Smitley.

Investment:

The Careful Investor.—Meade.
Investing for Profit.—Selden.
The Working of the Railroads.—McPherson.
Investors' Pocket Manual.

Speculation:

Practical Points on Stock Trading.—Scribner Browne.
Psychology of the Stock Market.—Selden.
Studies in Tape Reading.—"Rollo Tape."
Fourteen Methods of Operating in the Stock Market.

Banking, Finance, Economics:

Principles of Money and Banking.—Conant.
Principles of Bond Investment.—Chamberlain.
Principles of Economics.—Seligman.
Financial Crises.—Burton.
Financial Statements Made Plain.—Saliers.

GROUP I—ELEMENTARY BOOKS

1. **The Work of Wall Street**—Pratt. Price $2.40 postpaid.
2. **The Machinery of Wall Street**—Selden. Price $1.06 postpaid.
3. **Money and Investments**—Rollins. Price $2.60 postpaid.
4. **You and Your Broker**—Smitley. Price $1.00 postpaid.
5. **How to Read the Financial Page**—Browne. Price $1.06 postpaid.
6. **Principles of Economics**—Seligman. Price $2.70 postpaid.
7. **Principles of Money and Banking**—Conant. 2 Vols. Price $6.20 postpaid.
8. **Principles of Bond Investment**—Chamberlain. Price $5.25 postpaid.
9. **Financial Statements Made Plain**—Saliers. Price $1.06 postpaid.
10. **Bonds and Stocks**—Babson. Price $2.70 postpaid.
11. **Financing an Enterprise**—Cooper. Price $3.15 postpaid.
12. **Stock Exchange Laws**—Goldman. Price $1.10 postpaid.
13. **Brokerage Accounts**—Todman. Price $4.25 postpaid.
14. **Corporation Finance**—Greene. Price $1.65 postpaid.

GROUP II—INVESTMENTS

1. **Investing for Profit**—Selden. Price $1.06 postpaid.
2. **The Careful Investor**—Meade. Price $1.60 postpaid.
3. **Principles of Finance**—Carroll. Price $3.20 postpaid.
4. **Funds and Their Uses**—Cleveland. Price $1.85 postpaid.
5. **Investing Money Wisely**—Moody. Price $2.10 postpaid.
6. **Business Finance**—Lough. Price $4.20 postpaid.
7. **Accountancy of Investment**—Sprague. Price $5.25 postpaid.

GROUP III—SPECULATION

1. **Practical Points on Stock Trading**—Scribner Browne. Price $2.10 postpaid.
2. **Studies of Tape Reading**—"Rollo Tape." Price $3.06 postpaid.
3. **Psychology of the Stock Market**—Selden. Price $1.06 postpaid.
4. **Fourteen Methods of Operating in the Stock Market.** Price $1.06 postpaid.
5. **Financial Crises**—Burton. Price $2.10 postpaid.
6. **Speculation on N. Y. Stock Exchange**—Osborne. Price $1.65 postpaid.
7. **Value of Organized Speculation**—Brace. Price $1.60 postpaid.

GROUP IV—INTERMEDIATE STUDIES

1. **Corporation Finance**—Meade. Price $2.60 postpaid.
2. **Trusts, Pools and Corporations**—Ripley. Price $2.20 postpaid.
3. **Administration of Industrial Enterprises**—Jones. Price $2.10 postpaid.
4. **Interest Tables of Bond Values**—Rollins. Price $2.15 (or Sprague's **Complete Bond Tables**; price, $6.10).
5. **Capitalization**—Lyon. Price $2.10 postpaid.
6. **The Protection of Shareholders**—Kuhn.
7. **Corporate Reorganizing**—Dowing. Price $2.65 postpaid.
8. **The Rights of Railway Bondholders**—Heft. Price $2.10 postpaid.
9. **The Science of Finance**—Adams. Price $3.15 postpaid.
10. **Voting Trusts**—Cushing. Price $1.65 postpaid.
11. **The Wall Street Point of View**—Clews. Price $0.85 postpaid.
12. **Where Money Grows**—Garrett. Price $0.60 postpaid.
13. **Convertible Securities**—Rollins. Price $5.40 postpaid.
14. **How to Analyze Industrial Securities**—Collver. Price $2.15 postpaid.

GROUP V (CHOICE)

MONEY AND BANKING

1. **The Modern Bank**—Fiske. Price $2.40 postpaid.
2. **Story of the Trust Companies** — Perine. Price $2.15 postpaid.
3. **The Savings Banks**—Kniffin, Jr. Price $5.30 postpaid.
4. **Practical Work of a Bank**—Kniffin, Jr. Price $5.50 postpaid.
5. **Money and Currency**—Johnson. Price $2.05 postpaid.
6. **American Banking** — Willis. Price $2.15 postpaid.

TRANSPORTATION

1. **American Railway Transportation**—Johnson. Price $1.90 postpaid.
2. **American Railway Problems** — Vrooman. Price $1.60 postpaid.
3. **Earning Power of Railroads**—Mundy. Price $3.15 postpaid.
4. **Railroad Finance**—Cleveland. Price $3.20 postpaid.
5. **Railroad Accounting**—Hooper. Price $2.70 postpaid.
6. **Railroad Organization**—Ripley. Price $3.25 postpaid.
7. **Moody's Analysis of Railroad Securities.** Price $16.00 postpaid.

MANUFACTURING

1. **Economics of Business**—Brisco. Price $1.65 postpaid.
2. **Methods of Industrial Peace**—Gilman. Price $1.90 postpaid.
3. **Modern Industrialism**—McVey. Price $2.10 postpaid.
4. **American Corporations**—Sullivan. Price $2.70 postpaid.
5. **Corporate Organization**—Conyngton. Price $5.25 postpaid.
6. **Industrial Combinations & Trusts** — Stevens. Price $2.30 postpaid.

MINES AND OILS	COMMODITIES	UTILITIES AND MUNICIPALS
1. **American Mine Accounting**—Charlton. Price $5.15 postpaid.	1. **Trading In Wheat**—Prill. Price $1.06 postpaid.	1. **Municipal and Corporation Bonds**—Rollins. Price $0.85 postpaid.
2. **The Copper Handbook**—Stevens. Price $10.50 postpaid.	2. **The Book of Wheat**—Myrick. Price $2.25 postpaid.	2. **Valuation Public Utility Properties**—Floy. Price $5.30 postpaid.
3. **The Story of Oil**—Tower. Price $1.35 postpaid.	3. **Cotton Facts**—Zeller. Price $1.15 postpaid.	3. **Public Utilities**—Hayes. Price $2.15 postpaid.
4. **Mining Valuation**—Hoover. Price $2.70 postpaid.	4. **The Book of Corn**—Myrick. Price $1.65 postpaid.	4. **Engineering Valuation Public Utilities**—Foster. Price $3.30 postpaid.
5. **Analysis of a Mining Share**—Pickering. Price $1.50 postpaid.	5. **American Sugar Industry**—Myrick. Price $1.65 postpaid.	5. **Government Bonds**—The National City Co.
6. **Poor's Manual of Mines and Oils**—Price $16.00 postpaid.		6. **American Finance**—Lawson. Price $1.75 postpaid.

GROUP VI—POST GRADUATE

1. **The Business of Mining**—Hoskins. Price $1.65 postpaid.
2. **Discounted Bonds.** Price $2.10 postpaid.
3. **Elementary Manual of Statistics**—Bowley. Price $2.10 postpaid.
4. **Elements of Foreign Exchange**—Escher. Price $1.35 postpaid.
5. **Gold Supply and Prosperity**—Holt. Price $1.15 postpaid.
6. **Government Ownership of Railways**—Dunn. Price $2.15 postpaid.
7. **International Finance**—Withers. Price $1.40 postpaid.
8. **Principles of Depreciation**—Saliers. Price $3.20 postpaid.
9. **Purchasing Power of Money**—Fisher. Price $2.40 postpaid.
10. **Money and Credit**—Kemmerer. Price $1.35 postpaid.
11. **The Bank Rate and Money Market**—Palgrave. Price $3.65 postpaid.
12. **Accounts, Construction and Interpretation**—Cole. Price $2.65 postpaid.

CHAPTER XIII

Liberty Bonds

Points of Interest to Holders

SECURITY—The credit of the United States Government, of which all these bonds are a direct obligation.

Any investor receiving a prospectus with the above description need go no further in his investigation as to the advisability of purchasing any class of Liberty Bonds. Even if the patriotic motive for investing were eliminated—which is an almost impossible conception—the investment would stand as the most secure which has ever been presented.

It is perfectly evident that some day Liberty Bonds may sell for 105, 110 or possibly 115.

What Is a Liberty Bond?

A Liberty Bond is an evidence of an obligation of our Government to pay back at a specified time money which is loaned to the Government by you. The Government agrees to pay

interest to the lender every six months at a specified rate and to return the entire principal at a given time. The lender not only is credited with patriotic motives, but makes the most conservative investment ever known.

What Kinds of Bonds Now Exist?

1. The first loan offered the lender 3½ per cent., and the face value of the bonds is due June 15, 1947, though redeemable on and after. These bonds are exempt from all taxation except the inheritance tax, which is collected from the owner's estate. They may be exchanged for other bonds bearing the same or a higher rate of interest of any future issue which may be sold during the war.

These bonds have the best conditions for the wealthy man who pays a large tax and they have the best conversion privilege, for they may be converted into *any* future issue. The interest is payable on June 15 and December 15 of each year.

There are both registered and coupon forms, but it is not advisable for the small holder to register these bonds; for, though greater protection is gained against loss, this factor is offset

by the red tape and intricate detail—also delay—in releasing them for sale or future conversion. Special government forms are necessary, the affidavits of National Bank officers, and other inconvenient guarantees. If desired, the face value can be paid in 1932, a matter which is at the option of our Government.

2. The second loan was issued by the Government at 4 per cent. These bonds were issued in November, 1917, and the Government promises to pay the face value in 1942, with the option of paying them in 1927, if so desired by the Government. The interest is paid every six months of May 15 and November 15, at 4 per cent., or 2 per cent. each period.

These bonds are exempt from all taxes also, except the inheritance tax, as in the case of the first issue, and except the income surtaxes, excess profits and war profits tax. Any individual owning $5,000 or less of these bonds can exempt the income from this amount from the surtax. But all those who pay a surtax on their incomes will have to include income from these bonds over that accruing from $5,000 or more.

For the very rich man and wealthy corporations these bonds are not as profitable for hold-

ings because the tax paid on the income would more than offset the ½ per cent. difference in interest rate. These bonds can be exchanged for later issues bearing a higher rate. Later issues cannot be exchanged for the second or third issue bearing a higher rate.

3. The converted 4 per cent. bonds are those which are the result of lenders changing the first issue of 3½'s into the next loan. These converted 4 per cent.'s are due to be paid off in 1947, with the option on the part of the Government of paying them in 1932. The exemption privileges are exactly the same as the Second 4 per cent.'s and the possibility of exchange into later issues is the same as the Second 4 per cent.'s. The man who exchanged his 3½'s for 4 per cent.'s can exchange for the next issue if he thinks it advisable, but the man who retained his original 3½ per cent.'s can exchange for any future long term issue. The interest on these bonds is due June 15 and December 15, the same dates as the 3½ per cent. bonds.

4. The third loan was issued by the Government at 4¼ per cent. These bonds were issued during the first days of May, 1918, and the Government promises to pay the face value on Sept.

15, 1928. They cannot be redeemed before this date except for purchase for the account of the Sinking Fund. The interest is paid every six months on March 15 and Sept. 15 at 4¼ per cent. or 2⅛ per cent. each period.

Bonds of this issue are not convertible into any future loan nor are any 4¼ per cent. bonds accruing from the conversion of any previous issue again convertible into future issues.

5. The fourth 4¼s were issued in October, 1918. Interest at the rate of 2⅛ per cent. is to be paid each April 15 and October15, and the principal is to be paid on October 15, 1938, though the Government may repay the principal at any time after October 15, 1933. These bonds are not convertible into later series of bonds or notes issued, but bonds may be purchased or redeemed through sinking fund as may any other series of Liberty bonds excepting Liberty 3½s. Status as to taxation same as other 4¼s, excepting that the income from $30,000 principal value of this issue is exempt from surtax war-profits and excess-profits taxes for two years after the end of the war.

6. The first Liberty Loan Converted 4¼ were also issued in October, 1918. Their interest is

payable each April 15 and October 15 at the rate of 2⅛ per cent. Maturity same as first 3½s, June 15, 1947. Sinking fund identical with that for third and fourth 4¼s. Bonds not convertible into any other series. Taxation features similar to those of fourth 4¼s.

7. The Victory 3¾s were issued in May, 1919, and are due on May 20, 1923, though redeemable after June 15, 1922. Interest is payable semi-annually on June 15 and Dec. 15. Interest from any amount of these is free from income taxation. Like the first 3½s, the Victory 3¾s should appeal chiefly to the large investor. Sinking fund provided for redemption or purchase of this issue. Not convertible into any other series, but are interchangeable with the Victory 4¾ s.

8. The Victory 4¾s have the same maturity, redemption features and dates for payment of interest as the Victory 3¾s. They also were issued in May, 1919. Their interest is free from the normal income tax, regardless of the amount held, but is subject to the surtax, the excess-profits and war-profits taxes. Sinking fund is provided for purchase or redemption of these bonds. They are not convertible into any other

series, excepting that the 3¾s and this issue are interchangeable.

The man who did not convert his original 3½ per cent. bonds into the 4 per cent.'s of the second issue had the privilege of converting them into the 4¼ per cent. bonds of the third issue up until Nov. 9, 1918, but not thereafter. When he got the new 4¼ per cent. through such conversion the date on which the Government will pay him the face value of his bonds is the same date as that on which the 3½ per cent. bonds will be paid and not 1928.

Those who converted the 3½ per cent. bonds into 4 per cent. bonds of the second loan also had the privilege of again converting these "First Conversion 4 per cent.'s" into the 4¼ kind up until Nov. 9, 1918. These bonds will of course have the same date for the payment of principal as the original 3½ per cent.'s (1932-1947).

The man who purchased the original bonds of the second issue, or the 4 per cent. due 1927-1942, had the privilege of converting them into these new 4¼ per cent. bonds until Nov. 9, 1918, but the date for payment of principal will be the same as before (1927-42).

How Should They Be Kept?

The matter of registration of all three classes of bonds will of course protect the holder against loss, but this element of protection would not seem to be of such importance as the problem of releasing them for sale, borrowing purposes or conversion. It is therefore advisable for the small investor to keep his bonds in coupon—easy-to-dispose-of—form.

These coupon bonds are not much different from gold coin or bills. If they are lost there seems little likelihood of recovery even if the numbers are known, for these bonds are the most negotiable form of bond known. If the bonds are lost in coupon form you cannot get new ones. The best that can be done is to notify the Treasury Department in Washington and your Central Federal Reserve Bank to try to look out for them.

Bonds which have become mutilated may be replaced by the United States Treasury when proper affidavits are made to the Treasury officials and a bond of indemnity is given by the owner. The sum and substance of the matter is that the owner has just about as much chance

of recovering lost Coupon Liberty Bonds as he has to recover a twenty-dollar bill.

Not every investor in these bonds feels that he can afford a safe deposit vault. If this is true, it is best to apply to the bank or trust company in your city or town and ask them to help you out of your troubles.

If you can afford a safe deposit box—cost from $2.50 per year upwards—by all means rent one and put your bond in it and whatever other valuables it may hold which you have been hiding in bureau drawers or tucked away in mattresses. Do not carry these bonds on your person or leave them in your home, for there are very few burglar or fire insurance policies which will cover the loss of your Liberty Bonds.

How Can You Collect the Interest?

If your bonds are registered, you will receive a check from the United States Government on your interest day. You must be sure that the United States Treasury Department has your proper name and address. If you have coupon bonds, cut off the coupon which corresponds with the interest date due—be very careful to cut off only the coupon due—and present it to any bank,

trust company or postoffice which has a money order department. Your broker also will cash the coupon for you.

Those who own 3½ and 3¾ per cent. bonds do not need any form of ownership certificate—re income tax—to get their interest. Those who own more than $5,000 face value of the Second 4 per cent., the Converted 4 per cent., the Third 4¼ per cent, or any of the converted 4¼ per cent.'s or more than $30,000 of the 4th 4¼s will be compelled to furnish an ownership certificate before collecting their interest. The latter exemption holds for only two years after the termination of the war.

This article cannot enter into the various kinds of forms to meet certain conditions, but the advice is to go to your bank, trust company, broker or postmaster and get the proper information from him. Many stores and mercantile firms will accept your coupons the same as cash, if no income tax ownership certificate blank is necessary. If you lose a coupon your chance of replacing it is about one in a million, so be very careful not to let it get away from you, but cash it as soon as possible after cutting it from your bond.

Many bonds have but a few years' supply of coupons on them. When the set on your bond comes to an end, take the bond to your bank or broker, who will send it to the proper place to have additional coupons put on. Do not try to do this yourself. Always take a receipt for your bond when left with your bank, broker or post-office.

How Can You Buy and Sell Bonds?

The principal market for Liberty Bonds is in New York City on the New York Stock Exchange. But this market is mainly for denominations of $1,000 and up. There are a number of firms who make a specialty of the smaller or "baby" bonds, and your bank or trust company will be glad to have your order carried out. A National Bank is really a Government institution and should you meet with a rebuff or a refusal, find out the name of the nearest Central Federal Reserve Bank and communicate direct with them. Beware of brokerage firms and stock brokerage firms about which you know little or nothing. If you are located in a large city, you can find out which are responsible and which are not, but those bond holders residing in smaller towns

or in the country who have not had dealings with brokers should "play safe" and go to their banks or postmaster for advice.

It may be that the buyer of a $50 or $100 Liberty Bond will have to pay just a trifle more in the open market than he would for the $500 or $1,000 bond. He may also get a trifle less on sale, but the difference is so small as to be hardly noticed. The variation between bid and offer of these bonds can be as close as two cents for every $100 face value of bond.

If you sell your bond between interest dates, you will receive the accrued interest from the last date of payment, but the next coupon will go with the bond. The buyer pays you the proportion of interest you are entitled to up to the date you sold him your bond. In like manner, if you buy a bond, you must pay the seller his accrued interest up to the date of purchase.

You will find quotations for all Liberty Bonds in the city papers, or your bank will tell you the market price. There is no reason why you should sell at any less figure, and beware of those who desire to buy your bonds at less than the quoted price.

If you cannot pay for your bonds in full at

the time the Government requires the money, or if you wish to save money by purchasing these bonds on the installment or partial payment plan, you will find reputable firms which make a business of this form of purchase. Many local banks will be glad also to arrange terms for your convenience, but these reputable brokerage and investment firms have special plans for the small investor which will be communicated to him upon his inquiry.

How Can You Borrow on Your Bonds?

If you find yourself in dire need of funds, it is not necessary to sell your bonds. You can borrow on them until such a time as your financial condition is improved. Any bank will help you, and many firms make it a business of loaning money on these bonds. Do not borrow unless the lender gives you at least 90 per cent. of the market value of your bond. If your bond is valued at 97 and the face value is $100, you should get about $87.50 as a loan. Under no conditions should you be charged more than 6 per cent. for the amount borrowed, and the interest from the bond put up as collateral belongs to you when it is due.

You can borrow with an understanding that you will pay the entire amount borrowed at a certain time or you can borrow with the understanding that you will pay the loan in installments. In the latter case you must be certain that you are given credit for the installments paid in and no interest is charged on these installments.

It is necessary for you to make certain that you get a receipt, or form of agreement, for the loan made, so that there will be no dispute in the future. This agreement or receipt should be cared for just the same as if it were the actual bond.

In Recapitulation

At the time this book goes to press there are the following kinds of Liberty Bonds in existence:

1. 15-30 Year First Liberty Loan 3½% Payable 1932-1947.
2. 15-30 Year Converted 4% Payable 1932-1947.
3. 15-30 Year Re-Converted 4¼% Payable 1932-1947.
4. 10-25 Year Second Liberty Loan 4% Payable 1927-1942.
5. 10-25 Year Converted 4¼% Payable 1927-1942.

6. 10 Year Third Liberty Loan 4¼% Payable 1928.
7. 14-25 Year Fourth Liberty Loan 4¼% Payable 1933-1938
8. 14-29 Year First Liberty Second Converted 4¼% Payable 1932-1947.
9. 3-4 Year Victory Liberty 3¾% Payable 1922-1923.
10. 3-4 Year Victory Liberty 4¼% Payable 1922-1923.

Number 1 may be converted into any future loan running 5 years or more and bearing a higher rate of interest.

Number 2 may be converted into the 4¼ which ends the privilege.

Number 3 has no further conversion privilege.

Number 4 may be converted into the 4¼ per cent. which ends the privilege.

Numbers 5, 6, 7 and 8 have no further conversion privilege.

Numbers 9 and 10 are interchangeable.

It is very important to remember that when any bond is converted into another issue it continues to bear the same interest dates and date for redemption which it originally had. Conversion, however, changes the interest rate, taxation feature and conversion privilege into those of the bonds into which they were converted.

In Conclusion

If there are any questions which this article does not cover and about which you desire information, your local bank officials will be glad to answer them for you.

It is your duty, patriotic and personal, to know everything there is to know about your bond. Read what is printed on the body of the bond; read what is on the coupon; understand every feature and item connected with it. This lesson is the first step in your education as an investor.

The people of our country have been poor investors. The poorest citizen of France has known all about his Government bonds for hundreds of years. Our past and future Liberty Loans will awaken an investment interest which has come to stay. You must keep your education up to and above the average of the times and do not be afraid to ask about what you do not know or what is not clear to you.

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